

New Issue
Book-Entry Only

Moody's Rating: Aaa (Underlying Aa2)
Standard & Poor's Rating: AAA (Underlying AA)

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption" and "Certain Other Federal Tax Consequences" under "Legal and Tax Information" herein.

\$271,320,000

**THE CITY OF SEATTLE, WASHINGTON
WATER SYSTEM AND REFUNDING REVENUE BONDS, 2003**

DATED: Date of Delivery

DUE: September 1, as shown on page i

The Bonds will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede and Co. as bond owner and nominee for DTC. DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds will be paid semiannually on each March 1 and September 1, commencing September 1, 2003. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agency of the State of Washington (currently The Bank of New York in New York, New York), to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Book-Entry Transfer System" and in Appendix D.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the City's Water System, to refund certain outstanding debt of the Water System, to meet the Reserve Requirement for the Bonds, and to pay the issuance costs of the Bonds.

The Bonds are subject to redemption prior to maturity as described herein.

The Bonds are special limited obligations of the City. The Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (subject to certain restrictions) are pledged for payment of all Parity Bonds, including the Bonds. This pledge is superior to any other liens or charges. See "Security for the Bonds."

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds.



The Bonds do not constitute general obligations of the City, the State of Washington or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the ordinance authorizing the issuance of the Bonds. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Water System, are pledged to the payment of the Bonds.

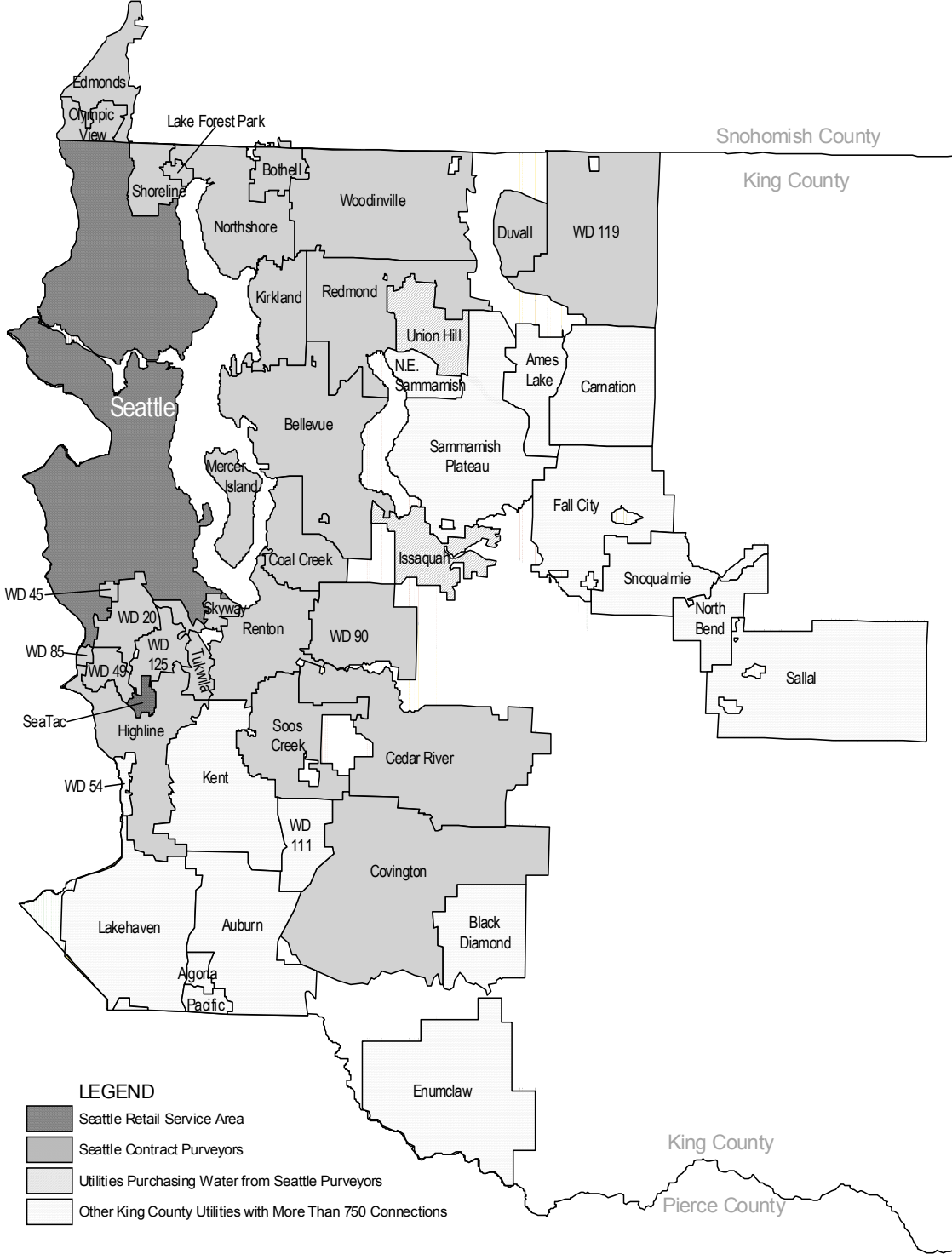
MATURITY SCHEDULE ON PAGE I

The Bonds are offered for delivery by the Purchaser, when, as and if issued, subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. It is expected that the Bonds will be ready for delivery at the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about May 12, 2003.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

Dated: April 29, 2003

Seattle Area Water Utilities



MATURITY SCHEDULE

THE CITY OF SEATTLE, WASHINGTON

\$271,320,000

WATER SYSTEM AND REFUNDING REVENUE BONDS, 2003

SERIAL BONDS

Due				
September 1	Amounts	Interest Rates	Yields/Prices	CUSIP Numbers
2003	\$ 14,500,000	6.000%	1.05%	812728HZ9
2004	12,660,000	6.000	1.20	812728JA2
2005	10,160,000	4.000	1.50	812728JB0
2006	9,505,000	4.000	1.80	812728JC8
2007	6,875,000	4.500	2.25	812728JD6
2008	7,450,000	4.500	2.59	812728JE4
2009	7,785,000	4.500	2.89	812728JF1
2010	8,145,000	4.500	3.21	812728JG9
2011	8,515,000	4.500	3.46	812728JH7
2012	8,900,000	4.000	3.58	812728JJ3
2013	9,265,000	4.000	3.70	812728JK0
2014	9,645,000	4.000	3.80*	812728JL8
2015	10,040,000	5.000	3.90*	812728JM6
2016	10,545,000	5.000	3.95*	812728JN4
2017	11,040,000	5.000	4.04*	812728JP9
2018	11,575,000	5.000	4.14*	812728JQ7
2019	12,185,000	5.000	4.24*	812728JR5
2020	12,890,000	5.000	4.32*	812728JS3
2021	11,790,000	5.000	4.40*	812728JT1
2022	12,480,000	5.000	4.47*	812728JU8
2023	12,870,000	5.000	4.54*	812728JV6
2024	4,225,000	4.625	4.61*	812728JW4
2025	4,420,000	4.625	4.65	812728JX2

TERM BONDS

Due				
September 1	Amounts	Interest Rates	Yields/Prices	CUSIP Numbers
2028	\$ 14,535,000	4.70%	100%	812728JY0
2033	29,320,000	5.00	4.70*	812728JZ7

* Priced to the September 1, 2013, par call date.

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THE CITY OF SEATTLE
CITY OFFICIALS AND CONSULTANTS

MAYOR AND COUNCIL

Greg Nickels	Mayor
Margaret Pageler	President, City Council
Jim Compton	Council Member
Richard Conlin	Council Member
Jan Drago	Council Member
Nick Licata	Council Member
Richard McIver	Council Member
Judy Nicastro	Council Member
Peter Steinbrueck	Council Member
Heidi Wills	Council Member

CITY ADMINISTRATION

Dwight D. Dively	Director of Finance
Thomas A. Carr	City Attorney

SEATTLE PUBLIC UTILITIES

Chuck Clarke	Director
Nick Pealy	Finance and Administration Branch Executive
Sharon White	Customer Service Branch Executive
Nancy Ahern	Resource Planning Branch Executive
Thomas J. Tanner	Engineering Services Branch Executive
Scott Haskins	Field Operations Branch Executive

FINANCIAL ADVISOR

Seattle-Northwest Securities Corporation
Seattle, Washington

BOND COUNSEL

Foster Pepper & Shefelman PLLC
Seattle, Washington

No dealer, broker, salesperson, or any other person has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create an implication that there has been no material change in the affairs of the City since the date of this Official Statement.

The City makes no representation regarding the accuracy or completeness of the information provided in Appendix D—"Book-Entry Transfer System," which has been furnished by DT,C or the information provided by MBLA Insurance Corporation under "Bond Insurance."

The information set forth herein has been obtained from the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

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OFFICIAL STATEMENT

THE CITY OF SEATTLE, WASHINGTON

\$271,320,000

WATER SYSTEM AND REFUNDING REVENUE BONDS, 2003

This Official Statement, which includes the cover page and the appendices, contains certain information concerning The City of Seattle (the “City” or “Seattle”), the City’s Water System and Refunding Revenue Bonds, 2003 (the “Bonds”), Seattle Public Utilities (“SPU”), and the City’s water system, referred to in the ordinance authorizing the issuance of the Bonds as the “Municipal Water System” (the “Water System”), in connection with the offering and sale of the Bonds.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the Water System, to refund certain outstanding debt of the Water System, to meet the Reserve Requirement for the Bonds and to pay the issuance costs of the Bonds. The Bonds are to be issued pursuant to chapter 35.92 Revised Code of Washington (“RCW”), the Seattle City Charter, Ordinance 121094, passed by the City Council on March 17, 2003 (the “Ordinance”), and Resolution 30598, adopted on April 29, 2003 (the “Resolution”). The Ordinance and the Resolution are referred to collectively herein as the “Bond Legislation.”

Appendix A to this Official Statement is a copy of the Ordinance. Appendix A-2 contains a summary of certain provisions of the Resolution required by MBIA Insurance Corporation in connection with the issuance of its bond insurance policy and the debt service reserve surety bond. Appendix B is the form of approving legal opinion of Foster Pepper & Shefelman PLLC of Seattle, Washington (“Bond Counsel”). Appendix C is the Water System’s audited 2002 financial statements. Appendix D is a description of DTC procedures with respect to book-entry bonds. Appendix E provides demographic and economic information. Appendix F is the Debt Service Reserve Fund Surety Bond and Appendix G is the municipal bond insurance policy specimen. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the Ordinance and in the Resolution.

DESCRIPTION OF THE BONDS

Registration and Denomination

The Bonds are issuable only as fully registered bonds and when issued will be registered in the name of Cede and Co. as registered owner and nominee for the Depository Trust Company (“DTC”), New York, New York. DTC will act as initial securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased.

The Bonds will be dated the Date of Delivery. The Bonds will mature on the dates and in the amounts and will bear interest (payable semiannually on each March 1 and September 1, beginning September 1, 2003) at the rates set forth on the cover of this Official Statement. Interest on the Bonds is to be computed on the basis of a 360-day year consisting of twelve 30-day months. The principal of and interest on the Bonds are payable by the City’s Bond Registrar, currently the fiscal agency of the State of Washington (currently The Bank of New York in New York, New York) to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under “Description of the Bonds—Book-Entry Transfer System” and Appendix D.

Redemption of Bonds

Optional Redemption. The Bonds maturing on or before September 1, 2013, are not subject to redemption prior to maturity. The Bonds maturing on or after September 1, 2014, are subject to redemption prior to maturity at the option of the City on and after September 1, 2013, as a whole or in part at any time (maturities to be selected by the City, and within a maturity by lot in such manner as the Bond Registrar may determine and, so long as the Bonds are held in book-entry form, in accordance with the procedures established by the securities depository) at a price of par plus accrued interest to the date of redemption.

Mandatory Redemption. If not previously redeemed as described above, the Term Bonds will be called for redemption by lot (or in such other manner as the Bond Registrar shall determine) at a price of par, plus accrued interest on the date of redemption, on September 1 in the years and amounts as follows:

<u>2028 Term Bonds</u>		<u>2033 Term Bonds</u>	
<u>Years</u>	<u>Amounts</u>	<u>Years</u>	<u>Amounts</u>
2026	\$ 4,625,000	2029	\$ 5,305,000
2027	4,840,000	2030	5,570,000
2028*	5,070,000	2031	5,850,000
		2032	6,145,000
		2033*	6,450,000

* Final maturity.

If the City redeems Term Bonds under the optional redemption provisions described above or purchases Term Bonds in the open market as described below, the par amount of the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) will be credited against the remaining scheduled mandatory redemption requirements for those Term Bonds in a manner to be determined by the City or, if no such determination is made, on a *pro rata* basis.

Notice of Redemption. Notice of any intended redemption will be given not less than 30 nor more than 60 days prior to the redemption date by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The requirements of this section will be deemed to have been fulfilled when notice is mailed, whether or not it actually is received by the owner of any Bond. As long as the Bonds are held in book-entry form, notices will follow procedures established by the securities depository. See “Description of the Bonds—Book-Entry Transfer System.”

No Acceleration of the Bonds

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal of or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

Open Market Purchase

The City reserves the right to purchase any of the Bonds on the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Book-Entry Transfer System

Book-Entry Bonds. DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond for each maturity, as set forth on the cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede and Co., as nominee for DTC. See Appendix D for additional information. *As indicated therein, certain information in Appendix D has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm its contents with DTC or its participants.*

Termination of Book-Entry Transfer System. If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC or if the City determines that a continuation of the book-entry transfer system is not in the best interest of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof. Thereafter, the principal of the Bonds will be payable upon due presentment and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed on the interest payment date to the persons in whose names such Bonds are registered, at the address appearing upon the Bond Register on the 15th day of the month next preceding the interest payment date or, at the request of the owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to the account in the United States designated in writing by the owner prior to the Record Date. The Bonds will be transferable as provided in the Ordinance.

Refunding or Defeasance of Bonds

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds or any portion thereof (the “Defeased Bonds”). If sufficient money and/or Government Obligations, taking into account known earned income from the investment thereof, are set aside in a special fund pledged to the redemption, retirement or defeasance of the Defeased Bonds (the “Trust Account”), then all right and interest of the owners of the Defeased Bonds in the pledges and covenants of the Ordinance and in the revenues and the funds and accounts pledged to the payment of the Defeased Bonds will cease and become void. Such owners thereafter will receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. See Appendix A—Ordinance—Section 29.

USE OF PROCEEDS

The proceeds of the Bonds will provide funds (i) for certain capital improvements and additions to, and conservation programs for, the Water System (the “Plan of Additions”), (ii) to refund certain outstanding debt of the Water System, (iii) to meet the Reserve Requirement for the Bonds, and (iv) to pay the issuance costs of the Bonds.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

Sources of Funds

Par Amount of Bonds	\$ 271,320,000
Net Premium	<u>13,651,627</u>
Total Sources of Funds	<u>\$ 284,971,627</u>

Uses of Funds

Project Fund Deposit	\$ 107,602,910
Refunding Escrow Deposit	175,834,696
Costs of Issuance*	<u>1,534,021</u>
Total Uses of Funds	<u>\$ 284,971,627</u>

* Includes Bond Insurance, Reserve Insurance, Issuance Expenses, Underwriter’s Discount, etc.

Refunding Plan

A portion of the proceeds of the Bonds will be used to refund through a current refunding all of the outstanding City of Seattle Water System and Refunding Revenue Bonds, 1993 (the “1993 Bonds” or the “Refunded Bonds”) maturing after June 1, 2003, as described in the table below, to realize debt service savings. The Refunded Bonds will be called on June 1, 2003, in the following amounts and at the following redemption prices.

REFUNDED BONDS				
Bond	Maturity Date	Interest Rate (%)	Par Amount	Call Price
Serials	12/01/2003	5.000	\$ 9,470,000	102
	06/01/2004	5.100	2,385,000	102
	12/01/2004	5.100	10,010,000	102
	06/01/2005	5.200	3,175,000	102
	12/01/2005	5.200	4,820,000	102
	06/01/2006	5.375	3,560,000	102
	12/01/2006	5.375	3,800,000	102
	06/01/2007	5.375	4,780,000	102
	06/01/2008	5.375	5,320,000	102
	06/01/2009	5.375	5,610,000	102
	06/01/2010	5.500	5,935,000	102
Terms	06/01/2014	5.500	27,345,000	102
	06/01/2018	5.500	34,095,000	102
	12/01/2023	5.250	48,225,000	101
Total			\$ 168,530,000	

Procedure. From a portion of the proceeds of the Bonds, and with other money available, the City will purchase certain direct, noncallable obligations of the United States (“Acquired Obligations”), which will be deposited in the custody of U.S. Bank National Association, or such other duly appointed successors (the Refunding Trustee). The maturing principal of the Acquired Obligations, interest earned thereon, and cash, if necessary, will pay the principal of and redemption premium and interest on the Refunded Bonds on June 1, 2003.

The Acquired Obligations, along with interest earned thereon and cash, if necessary, will be pledged irrevocably to and held in trust for the benefit of the owners of the Refunded Bonds by the Refunding Trustee, pursuant to a Refunding Trust Agreement to be executed by the City and the Refunding Trustee.

Verification of Mathematical Calculations. The accuracy of the mathematical computations of the adequacy of the maturing principal amounts of and interest on the Acquired Obligations and any cash to be held by the Refunding Trustee to pay the principal of and interest and redemption premium on the Refunded Bonds as described above will be verified by Grant Thornton, independent certified public accountants.

SECURITY FOR THE BONDS

Pledge of Net Revenue

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code). This pledge constitutes a lien and

charge upon the Net Revenue on a parity with that of other Parity Bonds and superior to any other liens or charges. See Appendix A—Ordinance—Section 20.

The Bonds do not constitute general obligations of the City, the State of Washington (the “State”) or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Water System, are pledged to the payment of the Bonds.

The Water Revenue Bond Account (the “Bond Account”) has been created in the Water Fund for the sole purpose of paying the principal of and interest on all Parity Bonds, including the Bonds. The City has agreed to pay into the Bond Account on or prior to the respective dates on which principal and interest are payable, all utility local improvement district (“ULID”) assessments on their collection (except for ULID assessments deposited in a construction account) and certain amounts from the Net Revenue of the Water System sufficient to pay such principal and interest when due. See Appendix A—Ordinance—Section 16.

Reserve Subaccount

The Reserve Subaccount has been created in the Bond Account to secure the payment of the principal of and interest on the Parity Bonds. So long as any Parity Bonds remain outstanding, the City will maintain the Reserve Subaccount at the lesser of Maximum Annual Debt Service or 125 percent of Average Annual Debt Service on the Parity Bonds (the “Reserve Requirement”). Under the Ordinance, the City must fund the increase in the Reserve Requirement due to the issuance of the Bonds from (i) Bond proceeds, (ii) Net Revenue in five annual installments or (iii) Reserve Insurance. The City intends to satisfy the Reserve Requirement upon the issuance of the Bonds by purchasing Reserve Insurance from MBIA. See Appendix A—Ordinance—Section 16. See also Appendix F—Certain Information Regarding the Reserve Insurance.

Outstanding Bonds

Outstanding Parity Bonds. The 1993 Bonds, 1997 Bonds, the 1998 Bonds, the 1999A Bonds, the 1999B Bonds, and the 2001 Bonds issued by the City and secured by revenues of the Water System are collectively referred to herein as the "Outstanding Parity Bonds". The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are referred to herein as the "Parity Bonds." The following table provides a summary of the Outstanding Parity Bonds.

OUTSTANDING PARITY BONDS (AS OF APRIL 1, 2003)

Bond Description	Authorizing Ordinance	Original Par Amount	Outstanding Principal on 4/1/2003
Water System Revenue Bonds, 1993 (the "1993 Bonds")*	116705	\$ 256,255,000	\$ 170,900,000
Water System Revenue Bonds, 1997 (the "1997 Bonds")	118512	\$ 53,000,000	\$ 47,980,000
Water System Revenue Bonds, 1998 (the "1998 Bonds")	118973	\$ 80,000,000	\$ 74,365,000
Water System Revenue Bonds, 1999 (the "1999A Bonds")	119457	\$ 100,000,000	\$ 93,320,000
Water System Revenue Bonds, 1999B (the "1999B Bonds")	119649	\$ 110,000,000	\$ 106,475,000
Water System Revenue Bonds, 2001 (the "2001 Bonds")	120547	\$ 52,525,000	\$ 52,525,000
Total		\$ 651,780,000	\$ 545,565,000

* The 1993 Bonds will be refunded with proceeds of the Bonds or paid at maturity on June 1, 2003.

Subordinate Lien Bonds. The City currently has outstanding the following variable rate bonds secured by Water System revenues (the “Subordinate Lien Bonds”).

OUTSTANDING SUBORDINATE LIEN BONDS
(AS OF APRIL 1, 2003)

Bond Description	Authorizing Ordinance	Original Par Amount	Outstanding Principal on 4/1/2003
Water System Adjustable Rate Revenue Bonds, 1995	117689	\$ 45,000,000	\$ 41,800,000
Water System Adjustable Rate Revenue Bonds, 2002A	120548	\$ 32,500,000	\$ 32,500,000
Water System Adjustable Rate Revenue Bonds, 2002B	120548	\$ 32,500,000	\$ 32,500,000
Total		\$ 110,000,000	\$ 106,800,000

The City has reserved the right to convert the Subordinate Lien Bonds to Parity Bonds, at its discretion, upon satisfaction of the conditions for the issuance of Future Parity Bonds under the ordinances authorizing the Parity Bonds. See “Additional Obligations—Future Subordinate Lien Bonds.”

Additional Obligations

Future Parity Bonds. Future Parity Bonds may be issued upon satisfaction of certain conditions set forth in the Ordinance. Among other conditions, the City must have on file at the time of the issuance of the Future Parity Bonds:

- (i) a certificate of the Director of Finance showing that during any 12 consecutive months out of the preceding 24 months Adjusted Net Revenue was at least equal to 1.25 times the Adjusted Annual Debt Service (the “Coverage Requirement”) for all Parity Bonds plus the Future Parity Bonds to be issued, or
- (ii) a certificate of the Director of Finance and the Director of SPU stating that, in their opinion, the Adjusted Net Revenue (taking into account certain permitted revenue adjustments) will be at least equal to the Coverage Requirement for the five years next following the earlier of (a) the end of the period during which interest on the Future Parity Bonds to be issued is capitalized or, if no interest is capitalized, the year in which the Future Parity Bonds are issued, or (b) the date on which substantially all the facilities financed with those Future Parity Bonds are expected to commence operations.

Future Subordinate Lien Bonds. In the Ordinance, the City has reserved the right to issue revenue bonds or other obligations having a lien on Gross Revenue subordinate to the lien thereon of the Parity Bonds. See Appendix A—Ordinance—Section 23.

Parity Payment Agreements. The City may enter into Parity Payment Agreements secured by a pledge and lien on Net Revenue on a parity with the Parity Bonds, subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—Ordinance—Section 23.

Contract Resource Obligations. The City may enter into Contract Resource Obligations to acquire water supply, transmission or other commodity or service from facilities to be constructed. The City may determine that all payments under those Contract Resource Obligations (including payments prior to the time such supply or service is being provided or during suspension or after termination of supply or service) will be an Operation and Maintenance Expense, upon compliance with certain requirements of the Ordinance. See Appendix A—Ordinance—Section 26.

Rate Covenant

The City has covenanted to establish, maintain and collect rates and charges for water service which will produce Adjusted Net Revenue of the Water System in each fiscal year at least equal to 1.25 times the Adjusted Annual Debt Service on all Parity Bonds for that year (the “Coverage Requirement”). See Appendix A—Ordinance—Section 1 for definitions of “Adjusted Net Revenue” and “Adjusted Annual Debt Service,” and Appendix A—Ordinance—Section 21(b).

Rate Stabilization Account. The City may deposit Gross Revenue and any other money received by the Water System into the Rate Stabilization Account and may withdraw money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the Water System. No deposit of Gross Revenue will be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. See “Water System—Financial Policies” and Appendix A—Ordinance—Section 18.

Other Covenants

In the Ordinance the City has entered into other covenants, including those with respect to maintenance of the Water System, sale of the Water System and preservation of tax exemption for interest on the Bonds. See Appendix A—Ordinance—Section 21.

Separate Utility Systems

The City may create, acquire, construct, finance, own, and operate one or more additional systems for water supply, transmission or other commodity or service. The revenue of the separate system will not be included in Gross Revenue, and may be pledged to the payment of revenue obligations issued for the purposes of the separate system. Neither the Gross Revenue nor the Net Revenue of the Water System will be pledged to the payment of any obligations of the separate system, except as a Contract Resource Obligation or on a basis subordinate to the lien of the Parity Bonds on that Net Revenue. See Appendix A—Ordinance—Section 25.

Combined Utility Systems

The City has reserved the right to combine the Water System with other City utility systems upon the maturity, redemption or defeasance of all of the then outstanding 1993 Bonds. It is anticipated that all of the outstanding 1993 Bonds will mature or be defeased as of June 1, 2003. See the definition of “Municipal Water System” in Appendix A—Ordinance—Section 1.

DEBT SERVICE REQUIREMENTS

The following table shows the debt service to be paid from the Net Revenue of the Water System.

DEBT SERVICE REQUIREMENTS

Date	Total		Parity Bonds								Total	
	Subordinate Lien										Parity Bonds	
	Debt Service ⁽¹⁾		1993 Bonds ⁽²⁾	1997 Bonds	1998 Bonds	1999A Bonds	1999B Bonds	2001 Bonds	The Bonds		Debt Service	
									Principal	Interest		Total Debt Service
2003	\$	5,361,000	\$ 20,898,085	\$ 3,730,846	\$ 5,270,450	\$ 6,649,636	\$ 7,979,600	\$ 2,597,588	\$ 14,500,000	\$ 3,964,262	\$ 65,590,468	\$ 70,951,468
2004		5,416,000	20,859,518	3,718,603	5,270,250	6,650,504	7,970,850	2,597,588	12,660,000	12,222,976	71,950,288	77,366,288
2005		5,368,000	15,805,640	3,708,940	5,258,750	6,651,754	7,962,850	3,647,588	10,160,000	11,463,376	64,658,898	70,026,898
2006		5,419,000	14,741,775	3,701,590	5,253,750	6,646,954	7,955,350	3,635,338	9,505,000	11,056,976	62,496,733	67,915,733
2007		5,367,000	11,733,388	3,696,284	5,249,750	6,645,929	7,953,100	3,626,513	6,875,000	10,676,776	56,456,739	61,823,739
2008		5,414,000	12,001,950	3,692,753	5,246,500	6,643,649	7,950,600	3,615,888	7,450,000	10,367,401	56,968,741	62,382,741
2009		5,358,000	11,998,206	3,685,728	5,243,750	6,633,413	7,947,600	3,605,550	7,785,000	10,032,151	56,931,398	62,289,398
2010		5,401,000	12,009,225	3,680,209	5,241,250	6,620,563	7,936,475	3,598,075	8,145,000	9,681,826	56,912,623	62,313,623
2011		5,440,000	12,013,450	3,675,928	5,243,750	6,606,806	7,928,475	3,588,225	8,515,000	9,315,301	56,886,935	62,326,935
2012		5,376,000	12,013,563	3,672,228	5,245,750	6,596,750	7,923,050	3,581,000	8,900,000	8,932,126	56,864,466	62,240,466
2013		5,411,000	12,028,188	3,672,578	5,247,000	6,585,000	7,912,450	3,572,750	9,265,000	8,576,126	56,859,091	62,270,091
2014		5,442,000	12,031,088	3,666,258	5,252,250	6,581,031	7,902,938	3,566,500	9,645,000	8,205,526	56,850,590	62,292,590
2015		5,370,000	12,041,163	3,659,898	5,261,000	6,574,319	7,898,938	3,557,000	10,040,000	7,819,726	56,852,043	62,222,043
2016		5,397,000	12,042,175	3,658,218	5,267,750	6,564,600	7,889,588	3,554,250	10,545,000	7,317,726	56,839,306	62,236,306
2017		5,420,000	12,013,850	3,655,658	5,277,250	6,561,350	7,884,600	3,547,750	11,040,000	6,790,476	56,770,934	62,190,934
2018		5,439,000	12,000,225	3,651,938	5,284,000	6,558,913	7,883,113	3,547,500	11,575,000	6,238,476	56,739,164	62,178,164
2019		5,454,000	12,025,875	3,646,219	5,297,750	6,556,763	7,879,263	3,543,000	12,185,000	5,659,726	56,793,595	62,247,595
2020		5,366,000	12,122,594	3,643,750	5,307,750	6,559,244	7,877,475	3,544,250	12,890,000	5,050,476	56,995,539	62,361,539
2021		5,377,000	10,375,250	3,643,969	5,318,750	6,560,700	7,876,888	3,545,750	11,790,000	4,405,976	53,517,283	58,894,283
2022		5,384,000	10,478,000	3,641,313	5,330,250	6,560,606	7,876,638	3,547,250	12,480,000	3,816,476	53,730,533	59,114,533
2023		5,387,000	10,240,825	3,640,500	5,341,750	6,558,438	7,875,863	3,543,500	12,870,000	3,192,476	53,263,351	58,650,351
2024		5,386,000	0	3,640,969	5,352,750	6,563,406	7,878,700	3,549,500	4,225,000	2,548,976	33,759,301	39,145,301
2025		5,381,000	0	3,637,156	5,367,750	6,561,503	7,870,100	3,549,500	4,420,000	2,353,570	33,759,579	39,140,579
2026		2,600,000	0	3,638,781	5,381,000	6,556,897	7,862,000	3,553,500	4,625,000	2,149,145	33,766,323	36,366,323
2027		2,600,000	0	0	5,397,000	6,556,703	7,853,200	3,556,000	4,840,000	1,931,770	30,134,673	32,734,673
2028		2,600,000	0	0	0	6,550,116	7,842,500	3,556,750	5,070,000	1,704,290	24,723,656	27,323,656
2029		2,600,000	0	0	0	6,546,328	7,838,700	3,560,500	5,305,000	1,466,000	24,716,528	27,316,528
2030		2,600,000	0	0	0	0	0	3,566,750	5,570,000	1,200,750	10,337,500	12,937,500
2031		2,600,000	0	0	0	0	0	3,570,000	5,850,000	922,250	10,342,250	12,942,250
2032		65,650,000	0	0	0	0	0	0	6,145,000	629,750	6,774,750	72,424,750
2033		0	0	0	0	0	0	0	6,450,000	322,500	0	0
	\$	205,384,000	\$ 271,474,030	\$ 88,060,308	\$ 132,207,950	\$ 177,901,872	\$ 213,410,900	\$ 101,625,353	\$ 271,320,000	\$ 180,015,364	\$ 1,429,243,276	\$ 1,634,627,276

(1) Variable rate; debt service payments may change.

(2) Expected to be paid at maturity or refunded from the proceeds of the Bonds on June 1, 2003.

SEATTLE PUBLIC UTILITIES

Administrative Structure

Seattle's water, drainage, wastewater, and solid waste utility services were consolidated administratively into a single entity known as Seattle Public Utilities ("SPU") in 1997. Within SPU, there are four separate funds: the Water Fund, the Drainage and Wastewater Fund, the Solid Waste Fund, and the Engineering Services Fund. The City has reserved the right to combine the Water Fund with other City utility funds upon the maturity, redemption or defeasance of all of the outstanding 1993 Bonds and the Drainage and Wastewater Revenue Bonds, 1995.

Management

SPU consists of the Director's Office and five Executive Branches: the Finance and Administration Branch, the Customer Service Branch, the Resource Planning Branch, the Engineering Services Branch, and the Field Operations Branch. The Director administers SPU in accordance with policies established by the Mayor of Seattle (the "Mayor") and the City Council. Brief biographies of the members of SPU's executive management team follow.

Chuck Clarke, Director. Mr. Clarke became Director of SPU in 2002. Prior to this appointment, he served as deputy mayor for the City, responsible for issues and projects dealing with utilities, transportation and the environment. He is the former Regional Administrator for the Environmental Protection Agency. He holds a bachelor's degree in biology and a master's degree in business administration from Pacific Lutheran University.

Nick Pealy, Finance and Administration Branch Executive. Mr. Pealy joined SPU in 1997 as Director of Finance and was promoted to his current position in 2001. He has worked for the City since 1987 as an economist for the City Council and as a rates supervisor and finance director for the Solid Waste Utility. He holds a bachelor's degree in political science and mathematics from Whitman College and a master's degree in economics from the University of Washington.

Sharon White, Customer Service Branch Executive. Ms. White was appointed to this position in January 2003. She has held leadership positions with SPU since its inception in 1997, and served as SPU's Utility Services Director prior to her promotion to Branch Executive. During her 18 years of City service, she has gained experience in program analysis, financial management, policy development, capital project management, and human resource management. She holds a bachelor's degree in sociology from the University of Washington and has attended the Cascade Public Executive Program at the University of Washington's Evans School of Public Affairs.

Nancy Ahern, Resource Planning Branch Executive. Ms. Ahern was appointed to this position in 2001. Prior to the appointment she was manager of the Water and Land Resources Division for King County. Ms. Ahern holds a bachelor's degree in biology and environmental studies from Principia College and a Ph. D. degree in natural resource management from the University of Michigan.

Thomas J. Tanner, Engineering Services Branch Executive. Mr. Tanner was appointed Engineering Services Branch Executive in 1998, and oversees engineering, design, project management, and construction management for SPU, as well as construction contractor management functions for Seattle City Light and the Seattle Transportation Department. Mr. Tanner holds a bachelor's degree in civil engineering from California State University and a master's degree in public works management from the University of Pittsburgh. He is a graduate of Northwestern University's Executive Management Program and is a registered professional civil engineer.

Scott Haskins, Field Operations Branch Executive. Mr. Haskins became Branch Executive of Field Operations in 2001. Prior to that appointment he had served as Resource Management Branch Executive and as the Deputy Superintendent of the Water Department (now the Water System). He is the past president of the Seattle Management Association and Chair of the West Coast Water Utilities Benchmarking Group. He

holds a bachelor's degree in political science and a master's degree in public administration from the University of Washington.

Employee Relations and Employment Retirement System

Currently SPU has approximately 1,300 employees, almost all of whom are members of the City's Employee Retirement System. The Retirement System requires SPU, like all City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension System." Approximately 75 percent of SPU employees are represented by five unions. SPU believes that labor relations are satisfactory. See "The City of Seattle—Labor Relations."

WATER SYSTEM

General

The Water System was established in 1890. It currently includes two watershed sources of supply east of the City and a small aquifer south of the City, as well as approximately 156 miles of supply mains and 460 million gallons ("MG") of storage capacity in transmission and distribution reservoirs. The Water System's service area includes Seattle and portions of unincorporated King County served directly (the "direct service area"), and also areas served by 27 suburban water districts, municipalities and non-profit water associations (the "Purveyors") in the County. The population of the Water System's direct service area is approximately 630,000, and the population of the area indirectly served through the Purveyors is approximately 710,000. The map on the inside front cover shows the service area and the locations of the Purveyors. Summary statistics for the Water System follow.

WATER SYSTEM OPERATING STATISTICS

	1998	1999	2000	2001	2002
Population Served					
Direct Service	608,947	614,076	619,247	624,463	629,722
Purveyors	682,592	689,465	696,338	703,279	710,290
Total Population Served	1,291,539	1,303,541	1,315,585	1,327,742	1,340,012
Water Sales Revenues (\$000)					
Direct Service ⁽¹⁾	55,659	58,267	71,064	73,321	80,829
Purveyors	25,843	27,114	33,121	30,874	35,052
Total Water Sales Revenues	81,502	85,381	104,185	104,195	115,881
Billed Water Use (MG)					
Direct Service ⁽²⁾	25,987	24,680	25,119	22,683	22,945
Purveyors	24,792	24,053	24,305	22,229	23,298
Total Billed Water Use	50,779	48,733	49,424	44,912	46,243
Operating Costs per MG (\$) ⁽³⁾	1,376	1,516	1,484	1,923	1,949
Gallons Used per Day per Capita	108	102	103	93	95
Direct Service Meters in Use	175,888	176,513	177,162	178,122	179,268
Number of New Water Services Installed	591	625	625	960	1,146

- (1) Increases in direct service revenues have come entirely from rate increases. There has been no change in the geographic area served nor any appreciable change in the number or composition of customers; aggregate water sales have declined since 1998.
- (2) Variations in billed water use are associated with year-to-year variations in temperature and precipitation in the summer irrigation period and, in 2001, an appeal to customers to limit water use due to drought conditions.
- (3) The increase in per unit operating costs in 2001 is primarily due to increases in operating costs and secondarily to a decline in water usage. Operating costs increased in 2001 in part because it was the first full year of operations of the Tolt Filtration Plant and the first full year of implementation of the Habitat Conservation Plan for the Cedar River Watershed.

Source: Seattle Public Utilities

Comprehensive Planning

The Seattle Comprehensive Water System Plan (the "Water Plan") is the 20-year comprehensive plan for the Water System. The most recent Water Plan was approved by the State Department of Health ("DOH") in 2001. The Water Plan provides guidance for planning and operating the Water System, and includes objectives for the next six years in the areas of water quality, maintenance and rehabilitation, water conservation, and water supply.

Water Supply

The Water System's two surface water supply diversions are located on the Cedar River and on the South Fork of the Tolt River, each approximately 25 miles east of Seattle. The watershed areas upstream of the water supply intakes on these two rivers consist of approximately 104,000 acres of forest land in the Cascade Mountains of western Washington. Rainfall in the watersheds averages in excess of 100 inches annually. The snow pack at higher elevations averages five feet per year. Raw water storage capacity is 84,000 acre feet in the Cedar River Watershed and 56,000 acre feet in the Tolt River Watershed.

The City has diverted water from the Cedar River for use by the Water System since 1902. The City acquired this right by purchase, riparian right, appropriation, and other applicable laws. This claim of water rights, its relationship to instream flow requirements and the effect of the City's diversion dam in blocking passage of

anadromous fish all have been the subject of intermittent discussions among the City, the State and the Muckleshoot Indian Tribe.

The City's water rights on the South Fork of the Tolt River were established by permits for water storage and water diversion granted by the State in 1957, with a priority date of July 14, 1936. These water rights remain in permit status. In 1989, the Federal Energy Regulatory Commission granted a license to Seattle City Light to build a hydroelectric power plant on the South Fork of the Tolt River, resulting in modifications to the terms of the original water permits. The project was completed in 1996, and in 1997, Seattle City Light documented the full beneficial use of the water needed for the hydropower plant and received a certificate of water right.

On an aquifer located south of Seattle and immediately north of the Seattle-Tacoma International Airport, the City has developed three supply wells with a combined capacity of 10 million gallons per day ("MGD") to augment the City's surface water supply. The feasibility of recharging the aquifer with surplus winter-spring flows from the Cedar River has been tested successfully. The wells are operated under temporary permits from the State of Washington Department of Ecology ("DOE"). The City has applied for permits which can be converted into water rights. DOE currently is in the process of finalizing a Report of Examination on the application, the step prior to issuing a permit.

In addition to the surface water supply diversions and the aquifer, the City has two barge-mounted pumping plants on Chester Morse Lake for use in the event of droughts. Each plant has the capacity to pump up to 120 MGD of high quality water from below the lowest natural outlet of the lake.

The administration of water rights in Washington is a matter of ongoing development and debate in the State Legislature and the courts.

Future Water Supply and Conservation

At present, SPU has adequate supply resources to meet Water System demands under a wide range of weather conditions. Existing sources of supply owned by the City provide an average annual firm yield of 171 MGD, an increase from 160 MGD in 2001 due to the completion of a new filtration plant on the Tolt River, which removes some of the restrictions on reservoir drawdowns. Demand in the service area, which averaged 148 MGD in the late 1990's, was 135 MGD in 2001 and 137 MGD in 2002. Providing sufficient water during the summer, when demand is 40 percent higher than during the winter, is the major challenge, as the Water System depends on seasonal storage to meet that demand.

Current forecasts of demand and supply suggest that a new primary source of supply will not be needed until sometime after 2020. While population growth in SPU's water service area is forecast to exceed one percent per year, water demand is expected to increase much more slowly due to conservation. Over the past decade, conservation has been encouraged through higher marginal rates in the summer peak season, aggressive water conservation programs, new state plumbing codes specifying efficiency standards for water fixtures, and improved system operations. As a result, annual average consumption declined from 170 MGD in 1990 to 137 MGD in 2002. In addition, the One Percent Conservation Program initiated in 1999 is expected to offset population growth and keep demand flat for at least the next ten years. See "Capital Improvement Program." In 2001, the City enacted a more aggressive conservation program designed to reduce the aggregate level of demand for water by 12 MGD by 2010 and established a water trust program to benefit the environment.

SPU is actively engaged in the evaluation of new sources of supply and conservation programs to meet the projected growth within the existing service area, to provide a hedge against potential reduction of water diversions to support environmental and related objectives and to serve water agencies within the region that are not Purveyors currently but might be added to the Water System. In addition to new conservation programs, additional water resources have been identified, including:

- (i) development of the Snoqualmie River Valley/North Bend Aquifer,
- (ii) installation of a permanent pumping plant at Chester Morse Lake,

- (iii) drawdown of Lake Youngs (which stores treated water from the Cedar River) for water supply,
- (iv) additional drawdowns of the reservoir on the South Fork of the Tolt River, and
- (v) development of a new source of supply at the North Fork of the Tolt River.

SPU participated for a number of years in the planning of a project to expand Tacoma's water supply and deliver a portion of this new supply to SPU through a new pipeline connecting the two water systems (the "Tacoma Project"). In 2002, the City determined that further participation in the Tacoma Project was not necessary to meet the future supply needs of the Water System.

Endangered Species Act

In 1999, the National Marine Fisheries Service ("NMFS") listed the Puget Sound chinook salmon, which migrate through waterways within and adjacent to the City, as a "threatened species" under the Endangered Species Act (the "ESA"). NMFS subsequently finalized a "4(d) rule" extending the ESA's prohibition against "take" to Puget Sound chinook salmon. This rule enables jurisdictions to submit plans that, if approved, would limit the application of the general prohibition to activities covered in the plan. Eligible activities include certain municipal, residential, commercial, and industrial development activities, certain road maintenance activities and certain forestry activities. The full implications of this listing and the 4(d) rule for the Water System are difficult to predict due to the many legal and scientific uncertainties associated with the application of the ESA to water supply operations.

In an effort to reduce uncertainty with regard to its largest water supply source, the Cedar River, the City entered into a Habitat Conservation Plan (the "HCP") with the U.S. Fish and Wildlife Service ("USFWS") and NMFS in 2000. The HCP specifies the measures the City will undertake to minimize and mitigate potential impacts on listed species. The HCP commits the City to spend about \$93 million to improve conditions for fish and wildlife within the Cedar River Watershed over the next 50 years, including expenditure of about \$25 million in the first six years for capital improvements. See "Watershed Management Policies" and "Capital Improvement Program." While these measures include commitments to instream flow levels, the Water System's estimated firm yield would not be impacted adversely by the HCP. The incidental take permit, which the City was issued when the HCP was approved, protects the City from ESA liability resulting from potential impacts of the Water System's Cedar River operations on chinook salmon, bull trout and approximately 80 other species of anadromous fish known to be present and potentially affected.

A lawsuit brought by the Muckleshoot Indian Tribe challenges the validity of the DOE's action in executing the Instream Flow Agreement for the Cedar River, which is an ancillary agreement to the HCP. This lawsuit was dismissed by the trial court and currently is on appeal. The litigation is not expected to affect the City's firm yield from the Cedar River source. In September 2002, the Muckleshoot Indian Tribe notified NMFS and USFWS of the tribe's intent to file a legal challenge to the HCP and the City's incidental take permit. No lawsuit yet has been filed. The City and the tribe are in ongoing discussions aimed at resolving these and other issues.

The second major Water System supply is drawn from the South Fork of the Tolt River, using a dam which, unlike the one on the Cedar River, is situated above a natural fish barrier. Streamflow levels downstream from the dam are affected by dam operations and water diversions, with potential impacts on chinook salmon. The City, tribes and several federal agencies have entered into the 1988 Tolt River Settlement Agreement, which includes commitments for streamflows and habitat improvements that were intended to mitigate for impacts caused by the City's water supply and power generation operations. The implications of the chinook listing for the Tolt River supply remain uncertain because, although other interested parties and agencies believe the flows are adequate for fish protection, NMFS has not made any determination as to their adequacy under the ESA. The City will attempt to resolve this uncertainty through one of the alternative mechanisms available under the ESA. At this point it is uncertain which mechanism will be used, how long it will take and whether additional mitigation will be required. However, it is anticipated that firm yield will not be affected.

Bull trout also have been listed as threatened and endangered and other fish listings can be anticipated. Because it is unknown whether bull trout are present in the Tolt River, the impact of the bull trout listing on the Tolt River and other City operations is unknown.

It is likely that other activities will be affected by the ESA. Facility construction and maintenance activities are under considerable environmental scrutiny, so at a minimum there are likely to be delays in permitting while federal, State and local agencies continue to sort out their respective regulatory roles. The extent to which additional costs will be incurred for mitigation specifically related to ESA is unknown.

To further manage legal risks, the City has invested in chinook salmon research for its major waterways and participated in regional watershed planning for the Cedar River, the Snohomish/Tolt Rivers and the Green/Duwamish Rivers. As a result, over the last two years it has assembled substantial data on chinook salmon and new scientific methods that provide the basis for development of best management practices (“BMPs”) in several key City activity areas, including most recently BMPs for water maintenance activities within road right-of-ways. In addition, salmon research and funding of staff at federal regulatory agencies responsible for ESA Section 7 consultations are allowing better project design, which are expected to result in fewer anticipated permit delays.

The City and SPU expect that additional funding will be needed to support habitat restoration programs that address salmon-related policy objectives. Funding for these programs is expected to come from a variety of sources, including City water rates, drainage and wastewater rates and general fund money, taxes or fees imposed by other local jurisdictions, and federal and State grants.

Transmission Facilities

The transmission facilities of the Water System consist of multiple primary transmission lines from the Cedar River, one transmission line and substantial portions of a second line from the Tolt River (“Tolt 1” and “Tolt 2”) and a network of supply mains throughout the total service area. In all, there are approximately 153 miles of primarily concrete or steel pipelines ranging in diameter from 30 to 96 inches.

In the late eighties, two segments of the Tolt 1 ruptured and subsequent inspection revealed the potential for future failures due to corrosion in the steel rods which form a spiral wrapping for the pipe. All but one mile of the weakened pipe has been rehabilitated or sliplined. The last mile will be rehabilitated within the next five years. In addition, for both reliability and new capacity, a new 25.3-mile transmission line (“Tolt 2”) is being constructed that will begin at the Tolt source and run parallel to and interconnect with Tolt 1 at several locations. A total of 18 miles of Tolt 2 has been constructed, which is expected to provide adequate reliability and capacity for the foreseeable future.

To assist in maintaining water flow to the distribution portion of the Water System, the transmission system includes two regulating basins and six storage reservoirs. In addition, there are seven pumping stations with a total rated capacity of 100,250 gallons per minute (“GPM”). The following table shows the hydraulic capacities of the primary transmission lines and the transmission regulating basins and reservoirs of the Water System.

CAPACITY OF INDIVIDUAL COMPONENTS OF THE TRANSMISSION SYSTEM

Facility	Capacity
Transmission Lines (MGD):	
Cedar River	275
Tolt River ⁽¹⁾	<u>120</u>
Total	395
Storage Facilities (MG):	
Lake Youngs (regulating basin) ⁽²⁾	4,812
Tolt Regulating Basin ⁽²⁾	312
Reservoirs	<u>185</u>
Total	5,309

(1) Based on pipe that is currently in service or installed.

(2) Effective capacity under current operating guidelines is less than hydraulic capacity.

Source: Seattle Public Utilities

During the month of record maximum consumption, July 1985, the transmission lines delivered an average of 301 MGD.

Storage and Distribution

Storage of water within the distribution portion of the Water System is accomplished by nine reservoirs, built between 1901 and 1990, nine standpipes and seven elevated tanks with capacities as follows:

DISTRIBUTION CAPACITY (MGs)

Reservoirs	256
Standpipes	9
Elevated Tanks	<u>10</u>
Total	275

Source: Seattle Public Utilities

SPU operates under storage guidelines promulgated by DOH. These guidelines specify a minimum amount of distribution storage capacity for emergencies of 200 gallons per residential household equivalent. Existing storage in the direct service area as a whole significantly exceeds the minimum requirement; some hilltop communities have less storage available by gravity, but can be supplied from lower elevation reservoirs by pumping.

The distribution system consists of approximately 1,660 miles of predominantly cast iron and ductile iron pipe. Concrete and steel pipe have been employed also; the only asbestos cement pipe is in a distribution system in a City park. To assist in maintaining adequate pressure within the distribution system, there are 25 electric and hydraulic pumping stations with a total rated pumping capacity of 261.3 MGD.

The storage and distribution facilities and conservation incentives have met the needs of the expanding population in the service area. Peak day consumption levels as high as 329 MG and 348 MG were recorded on June 29, 1987, and July 15, 1970, respectively. However, in the last ten years, peak daily consumption has averaged about 243 MG.

In the last decade, two studies have been conducted to evaluate leakage from the Water System. System-wide leakage is estimated at 3.1 MGD. Total uses of non-revenue producing water (leakage, system cleaning and flushing, fire fighting, and lake flushing) are estimated at 10 to 12 MGD, or about seven percent of total water usage.

Seismic Reliability

Since the late 1980's, several engineering evaluations have been made of the major parts of the Water System to assess the reliability of the Water System in the event of a major earthquake. Analysis has included the effects of (i) a magnitude 7.5 earthquake centered under a facility and (ii) a magnitude 8.25 subduction earthquake within 95 miles of a facility. Overall, Water System facilities generally are expected to remain operational in the event of a major earthquake. Most of the tank-type reservoirs, both elevated tanks and standpipes, are predicted to sustain some damage and leakage.

Remedial work was initiated in 1993 as part of an overall seismic improvement program and is expected to be completed in 2007. While the ultimate cost of the remedial work is uncertain, SPU believes that the projects and costs already included in the Capital Improvement Program (the "CIP") represent the major portion of the costs of the identified remedial program.

Water Quality

SPU has a comprehensive source-to-tap water quality management program. Water quality is ensured through an integrated effort of source protection, state of the art treatment and ongoing monitoring throughout the system for potential microbial and chemical contaminants.

SPU owns the Cedar River Water shed and 70 percent of the South Fork Tolt River Watershed (the other 30 percent is U.S. Forest Service land) above the intake points. Protection of the two watersheds from agricultural, industrial and recreational activities helps ensure that high quality water is delivered to 1.3 million people in the Seattle area. In addition to the two primary surface sources, three wells on an aquifer south of the City periodically provide a small portion of the City's water supply. These wells are deep and afford natural protection from contamination.

Water quality is further improved by treatment. The primary treatment used on the Cedar River water supply is screening, fluoridation, corrosion control, and disinfection with chlorine. The Tolt River supply treatment includes ozonation, coagulation and flocculation, filtration, chlorination, fluoridation, and corrosion control at the 120 MGD treatment facility that was brought online in early 2001. When wells are in operation, treatment includes chlorination, fluoridation and pH adjustment. The intent of treatment is to protect public health and to comply with treatment and monitoring requirements of the Washington State Department of Health ("WDOH"). SPU operates a water quality laboratory certified by WDOH for bacteriological and chemical analyses to help ensure compliance with drinking water standards.

As an operator of a community water system, SPU must comply with treatment and monitoring requirements of the Safe Drinking Water Act of 1974 as amended and any additional requirements as specified by WDOH. Water quality parameters and regulations of particular significance are discussed below.

Surface Water Treatment. The Surface Water Treatment Rule ("SWTR"), which was finalized by EPA in 1989, established filtration and disinfection requirements for public water systems utilizing surface sources. It also established criteria under which such a water system can avoid filtration. These criteria include (i) watershed protection and management, (ii) raw water quality, (iii) treatment efficiency and redundancy, and (iv) some aspects of distribution system water quality. SPU has consistently met all the criteria except for fecal coliform densities in Cedar River raw water prior to treatment. As a result of exceeding this criterion on the Cedar River source, SPU has entered into an Agreed Order with WDOH requiring SPU to install ozonation and ultraviolet light disinfection on the outlet of Lake Youngs. These additional treatment steps are intended to address the requirements of State and federal treatment rules. This facility will provide SPU the flexibility to produce high quality treated water as regulatory requirements increase. Construction is under way for the new treatment facility, which is expected to be on line in mid-2004.

Lead and Copper. Lead and copper have not been detected in the source water. Lead in water normally comes from plumbing materials, primarily from corrosion of lead solder used to connect copper pipes and from brass fixtures. SPU recognizes this as a potential problem and has been treating the water to reduce its corrosiveness since 1983. The City was the first municipality in the nation to ban the use of lead solder in potable plumbing systems. The steps taken in the last two decades to reduce the corrosiveness of its water

have been successful in reducing lead levels at customer taps. Some customers in the service area, however, have lead concentrations in their tap water that exceed EPA's threshold of 15 parts per billion. In response, the City conducts an annual public education program to inform consumers of the risks of lead exposure and methods to reduce such exposure. As part of a Bilateral Compliance Agreement between SPU and WDOH, SPU completed a corrosion control optimization report and submitted it to WDOH in January 2003. Once approved by WDOH, SPU will revise corrosion treatment on the Tolt River supply and conduct follow-up monitoring in 2004.

Disinfection Byproducts. The use of disinfectants, such as chlorine, to provide microbial protection of water can result in the formation of disinfection byproducts ("DBPs") when the disinfectants react with organic matter in the water. SPU was able to meet standards set by the Stage 1 DBP Rule in distribution system locations supplied by the Tolt River source as a result of the improved treatment provided by the Tolt Treatment Facility's filtration process. DBP levels in the distribution system supplied by the Cedar River source have been acceptable under the current treatment processes. Recent sampling and analysis indicates SPU meets current regulatory standards for DBPs and anticipates meeting increasingly stringent future requirements.

Open Reservoirs. The 1994 revisions to WDOH drinking water regulations required the development of a plan to cover all open distribution reservoirs. SPU developed and is now implementing a Reservoir Covering Plan, which WDOH approved. Three of its distribution reservoirs have been covered. The remaining seven will be covered or otherwise replaced by 2018.

Arsenic. The City's two primary drinking water sources from the Tolt and Cedar watersheds have no detectable arsenic, which may occur naturally in groundwater but is not usually found in surface sources. With the periodic operation of a well at Boulevard Park and two wells at Riverton Heights, the question has arisen whether arsenic is a concern from these wells. The EPA recently revised the arsenic standard lowering the Maximum Contaminant Level ("MCL") from 50 parts per billion ("ppb" or may expressed as 0.050 mg/L) to 10 ppb. Naturally occurring arsenic concentration in the Riverton Wells is 2.7 ppb and has been found in the Boulevard Park Well at 1.7 ppb, significantly below the MCL that is considered protective of human health. The new MCL will not affect the City's current surface sources or existing wells.

Radon. Radon is a radioactive gas that emits ionizing radiation and may be released from tap water. Although no current rule regulates radon in water, a Radon Rule was proposed in 1999 and is expected to be finalized sometime in 2003. Once finalized, systems would begin initial monitoring approximately four years later. The seasonally operated wells at Boulevard Park and Riverton Heights contain naturally occurring radon on the order of 400 picoCuries per liter ("pCi/L") at the wellhead. When in operation, water from the wells is blended with the Cedar River supply and concentrations in the distribution system are much lower. The anticipated primary MCL for water is 300 pCi/L. If the State and/or SPU develop and implement (or fund) a multi-media mitigation program ("MMM") to address radon levels in indoor air, the Alternative MCL for radon in water is 4000 pCi/L. The unique regulatory framework reflects the characteristics of radon: in most cases, radon released to indoor air from soil under homes and buildings is the main source of exposure, and radon released from tap water is a much smaller source of radon in indoor air. It is more cost effective to reduce risk from radon exposure from indoor air than from drinking water, and the EPA has encouraged states to take full advantage of the flexibility and risk reduction opportunities in the MMM program. Assuming an alternative MCL under the MMM program, SPU would have radon concentrations ten times less than the maximum level.

Watershed Management Policies

SPU carries out programs of watershed resource management, fire protection and the protection of water resources within the Cedar River and South Fork of the Tolt River Watersheds. Seattle City Light also operates a small hydroelectric plant in the Cedar River Watershed.

Land development impacts and more stringent regulatory standards have made ownership of the property in the watersheds an increasingly important element of SPU's overall strategy to preserve and enhance water quality. The City now owns more than 99 percent of the 141-square-mile Cedar River Watershed and

70 percent of the 21-square-mile South Fork of the Tolt River Watershed. The U.S. Forest Service owns the remaining 30 percent of the South Fork of the Tolt River Watershed.

Consolidated ownership of the Cedar River basin has resulted in strengthening forest management, wildlife and other programs that are based upon comprehensive management policies adopted in 1989 to guide the secondary uses of the watershed. Prior to 2000, management policies for the Cedar River Watershed provided for selective commercial harvest of second growth timber. The timber harvest program and related policies were re-evaluated during the development of the Cedar River Watershed HCP, and the City committed to discontinuing timber harvest for commercial purposes over the 50-year lifespan of the HCP. While trees may be cut, timber harvests are allowed only when they benefit fish or wildlife populations and support the goals and objectives of the HCP.

The HCP commits the City to improving fish and wildlife habitat, including providing salmonid fish passage, ecological and restoration thinning and planting of more than 17,000 acres of second growth forest, restoration of riparian, wetland and stream habitats, and the abandonment of more than 200 miles of logging roads in the watershed.

Purveyor Contracts

Approximately 30 percent of water sales revenue is derived from sales to 26 Purveyors. Seventy-four percent of these sales by volume of water consumed are governed by contracts signed in 1982 which will expire in 2011. These contracts obligate the City to meet the Purveyors' demand for water (except in emergency conditions) and provide the City with the long-term commitments requisite to investing in future Water System expansions to serve the Purveyors. Under these contracts, any Purveyor that decides to develop alternative sources and leave the Water System must give five years' notice and hold harmless the City and remaining Purveyors from any increased capital and operating costs allocated to them as a result of such withdrawal.

Seven Purveyors, representing about 22 percent of total Purveyor consumption, have signed new contracts with a 60-year term and relinquished their rights and responsibilities under the 1982 contract. These contracts obligate the City to meet the Purveyors' demand that is not already met by their independent sources of supply. Compared to the 1982 contract, the new contracts make it easier for a Purveyor to develop alternative sources of water and reduce its purchases from the City.

SPU also is negotiating a block sales contract with the Cascade Water Alliance ("CWA"), a consortium of six current Purveyors representing about 40 percent of total Purveyor consumption. SPU anticipates that this contract will cap CWA demand from the Water System at approximately 31 MGD. CWA will develop sources of supply to satisfy the future water demands of CWA members above the cap amount and is funding feasibility studies for using Lake Tapps in Pierce County as a potable water supply.

The following table lists consumption in hundred cubic feet (“ccf”) by individual Purveyors and revenues generated by water sales to individual Purveyors in 2002.

WATER SALES TO PURVEYORS IN 2002

<u>Purveyor</u>	<u>Consumption (ccf)</u>	<u>Revenue</u>
Bellevue ⁽¹⁾	7,559,140	\$ 8,333,096
Kirkland ⁽¹⁾	2,989,315	3,358,443
Highline ⁽²⁾	2,918,609	2,834,703
Northshore ⁽¹⁾	2,833,696	3,266,325
Soos Creek ^{(1) (2)}	2,173,499	2,503,200
Woodinville ⁽¹⁾	2,070,493	2,846,945
Water District #20 ^{(1) (2)}	1,285,424	1,273,084
Coal Creek ^{(1) (2)}	1,121,178	1,338,092
Tukwila	1,119,261	1,125,599
Mercer Island ⁽¹⁾	1,091,347	1,090,249
Cedar River ⁽²⁾	912,348	1,135,058
Shoreline ^{(1) (2)}	908,984	823,607
Bothell ⁽¹⁾	751,320	1,059,646
Water District #49	625,111	620,728
Water District #125 ⁽²⁾	580,052	592,003
Water District #90 ⁽¹⁾	538,035	527,618
Redmond	385,288	687,457
Olympic View	382,872	377,940
Other Purveyors	901,698	1,096,735
Total	<u>31,147,670</u>	<u>\$ 34,980,528</u>

(1) Indicates Purveyors that buy all water from SPU.

(2) Indicates Purveyors that have signed the new contract.

Source: Seattle Public Utilities

Major Retail Water Users

There are no major water-intensive users in the service area. The Water System’s ten largest retail water users in 2002 included the University of Washington, the Seattle Housing Authority, the Seattle Parks Department, the Port of Seattle, Seattle Steam, Swedish Medical Center, the Seattle School District, ALPAC, King County, and James Hardie Gypsum. In the aggregate, revenue from these customers was less than six percent of operating revenues in 2002.

Water Rates

Establishment of Rates. Water rates are proposed by the Mayor, reviewed by the City Council and adopted after public hearings. The Mayor and the City Council have exclusive authority to set rates and charges for water services. The City is not subject to the rate-making jurisdiction of the Washington Utilities and Transportation Commission or any other State or federal agency.

The following table shows water rate increases since 1998. Rates generally are increased as of January 1 of the given year. However, the increase shown in 2003 took effect on September 16, 2002. The rate increase shown for 2004 was enacted by ordinance and will become effective on January 1, 2004.

<u>Year</u>	<u>Rate Increase</u>
1998	9.0%
1999	10.5
2000	19.1
2001	5.9
2002	5.6
2003	14.5
2004	10.6

Source: Seattle Public Utilities

The following table shows the rates that went into effect as of September 16, 2002. Both retail and wholesale rates are seasonally differentiated; the summer residential rate has an inclining block structure.

**SEATTLE WATER SYSTEM
2003 MONTHLY WATER RATES**

	<u>Residential ⁽¹⁾</u>	<u>Commercial ⁽¹⁾</u>	<u>Purveyor</u>
Commodity Charge (\$ per ccf)			
Winter (eight months)	\$ 2.33	\$ 1.29	\$ 0.77
Summer (four months)		2.34	1.17
Up to 500 cubic feet ("cf")	2.33	NA	NA
Next 1000 cf	3.07	NA	NA
Over 1500 cf	11.40	NA	NA
Growth charge ⁽²⁾	NA	NA	0.68
Basic Service Charge (\$ per month) ⁽³⁾			
3/4"	\$ 4.10	\$ 4.10	NA
1"	6.70	6.70	\$ 54.00
1-1/2"	12.90	12.90	60.00
2"	20.50	20.50	66.00
4"	62.60	62.60	108.00

(1) Direct service rates to customers outside the City limits are 14 percent higher.

(2) An individual Purveyor pays a growth charge on any purchases in excess of purchases in the base period (1979–81).

(3) The Basic Service Charge is based on the size of the customer's meter. Rates for larger meters are not shown.

Source: Seattle Public Utilities

Rates to Purveyors served through master meters are established by the Purveyor contracts. SPU meters the peak instantaneous flow rate of Purveyors as a means of penalizing excessive peak demand on the Water System through a charge based on the equivalent financing cost of providing peak-hour storage. The proceeds of this charge are used to reduce revenue requirements when establishing wholesale rates.

Rate Comparisons. Seattle's water rates have risen faster than the rate of inflation over the past five years and now are above the average of other cities of its size.

The following table shows 2003 water bill rates for Seattle compared to other cities in the region.

REGIONAL COMPARISONS
(2003 RATES, IN EFFECT AS OF JANUARY 1, 2003)

City	State	Residential (6 ccf/month)	Commercial (500 ccf/month)	Industrial (15,000 ccf/month)
Bellevue	Washington	\$ 22.83	\$ 1,250	\$ 36,098
Seattle	Washington	21.74	1,044	30,672
Tacoma	Washington	13.99	434	9,709
Portland	Oregon	11.34	1,102	33,292
Everett	Washington	10.94	539	11,849
Average		\$ 16.17	\$ 874	\$ 24,324

Source: SPU Survey

Billing. SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Customers receive a combined utility bill that itemizes amounts due for water, wastewater and solid waste services. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is transferred to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. If an account is 33 days past due, customers receive a water shut-off notice. By State law, water may be shut off when an account is delinquent. Delinquent charges bear interest at the rate of 12 percent per annum.

Capital Improvement Program

Capital investments are guided by the Water Plan and multi-year CIP, which is developed within the framework of the Water Plan and included in the Capital Improvement Program of the City as a whole. The CIP is reviewed, revised and adopted annually by the Mayor and Council as part of the City's budget process. See "Comprehensive Planning." The CIP and the Water Plan are the basic elements of the Plan of Additions, for which the Bonds are a partial funding source. The CIP identifies facility needs and financing for rehabilitation, enhancement and expansion of the Water System. Currently its goals are to rehabilitate the water distribution system, make seismic improvements at a few critical locations and make water quality improvements.

Over the next 20 years, the CIP is estimated to cost \$1.2 billion (in constant 2003 dollars). Future bond financings over the next six years are estimated to total \$372.0 million (nominal dollars). In the period 2003 through 2008, the CIP will require a higher than historical level of investment which is due, in large part, to the construction of a new treatment facility on the Cedar River source and burying the storage reservoirs in the City. Including the Bonds, SPU expects to issue approximately \$481.8 million in debt for the CIP during the period 2003 through 2008. Annual debt service is expected to rise from \$54.0 million in 2003 to \$76.8 million in 2008.

The CIP is organized into seven program areas: (i) Water Infrastructure, (ii) Water Quality, (iii) Water Supply, (iv) Technology, (v) Habitat Conservation Plan, (vi) Environmental Stewardship, and (vii) Other Agency Projects, as shown in the table below.

**WATER SYSTEM
CAPITAL IMPROVEMENT PROGRAM
(Amounts in Thousands of Nominal Dollars)**

	2003	2004	2005	2006	2007	2008	Total
Program Area							
Water Infrastructure	\$ 34,059	\$ 42,364	\$ 44,784	\$ 58,279	\$ 54,364	\$ 50,482	\$284,332
Water Quality	55,118	15,355	24,347	36,651	36,820	28,578	196,869
Water Supply	6,050	9,721	6,546	7,489	7,951	7,822	45,579
Technology	8,954	6,560	5,799	3,711	3,408	1,172	29,604
Habitat Conservation Plan	8,521	8,890	9,232	2,715	2,756	3,778	35,892
Environmental Stewardship	694	1,110	608	625	643	661	4,341
Other Agency Projects	5,038	3,681	3,152	1,522	1,435	1,357	16,185
Total	\$118,434	\$ 87,681	\$ 94,468	\$110,992	\$107,377	\$ 93,850	\$612,802
Funding Sources							
Debt Financing							
Outstanding Bonds	\$ 19,430	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 19,430
The Bonds	86,382	25,876	0	0	0	0	112,258
Future Bonds	0	46,428	75,839	89,169	86,147	68,976	366,559
Total Debt Financing	\$105,812	\$ 75,534	\$ 76,169	\$ 88,984	\$ 85,930	\$ 68,763	\$501,192
Internally Generated Funds	7,923	7,402	13,494	17,143	16,522	20,100	82,584
Grants and Reimbursement	4,699	4,745	4,805	4,865	4,925	4,987	29,026
Total	\$118,434	\$ 87,681	\$ 94,468	\$110,992	\$107,377	\$ 93,850	\$612,802

The development of the CIP balances financial capacity with the demands of rehabilitation, improvement, water quality, and expansion. In response, SPU has steadily expanded the Water System CIP, raised rates and increased its long-term borrowing plans. In managing the expansion of the CIP, SPU has emphasized efficient project design and careful staging of improvements within the 20-year time frame of the Water Plan. In the period 2003 through 2008, SPU expects the financial requirements for these projects to be met from Net Revenue of the Water System, the proceeds of the Bonds and the proceeds of Future Parity and Subordinate Lien Bonds (approximately \$372 million). About 82 percent of the cost of the CIP is expected to be financed by the issuance of bonds.

Financial Policies

The Mayor and Council have established financial policies by resolution for SPU, including the Water System. In accordance with these policies, water rates are set to achieve generally positive net income and cash balances and a minimum debt service coverage ratio on fixed rate long-term Parity Bonds of 1.70 times annual debt service.

In 2002, the City by ordinance strengthened the Rate Stabilization Account by announcing an intent to raise rates to achieve a balance of \$9 million in approximately four years if no money is withdrawn to meet coverage requirements. Rates have been set to collect \$2.5 million per year for deposit into this account in 2003 and 2004. The balance in the account is intended for use during periods of poor water sales, and may be withdrawn only by ordinance. Revenues contributed to the Rate Stabilization Account are not considered available for debt service coverage in the year they are contributed, but are considered available for coverage in the year they are withdrawn. See Appendix A—Ordinance—Section 18.

Financial Performance

The table “Operating Results” shows historical revenues and expenses of the Water System for the years 1998 through 2002 and projected revenues and expenses for 2003 and 2004. The projections assume a 2.5 percent inflation rate, 5.0 percent interest cost on the Bonds, 5.5 percent interest cost on new long-term bonds, 4.95 percent interest cost on variable rate debt, 3.5 percent interest earnings on cash balances, and adopted

rate increases. Demand is assumed to increase by 0.4 percent in 2003 (as drought-related conservation habits erode) and decrease by 0.5 percent in 2004 (as a result of continuing conservation initiatives). \$2.3 million in savings associated with the refunding portion of the Bonds are assumed in 2003, and no refunding savings are assumed in 2004.

IN THE PREPARATION OF THE PROJECTIONS IN THIS OFFICIAL STATEMENT, THE CITY HAS MADE CERTAIN ASSUMPTIONS WITH RESPECT TO CONDITIONS THAT MAY OCCUR IN THE FUTURE. WHILE THE CITY BELIEVES THAT, AS OF THE DATE OF THIS OFFICIAL STATEMENT, THESE ASSUMPTIONS ARE REASONABLE FOR THE PURPOSE OF THE PROJECTIONS, THEY DEPEND UPON FUTURE EVENTS, INCLUDING A WIDE VARIETY OF RISKS AND UNCERTAINTIES. ACTUAL CONDITIONS MAY DIFFER MATERIALLY FROM THOSE ASSUMED. THE CITY DOES NOT REPRESENT, WARRANT OR GUARANTEE THAT ACTUAL RESULTS WILL REPLICATE THE ESTIMATES IN THE VARIOUS TABLES SET FORTH IN THIS OFFICIAL STATEMENT. POTENTIAL PURCHASERS OF THE BONDS SHOULD NOT RELY ON THE PROJECTIONS IN THIS OFFICIAL STATEMENT AS STATEMENTS OF FACT. SUCH PROJECTIONS ARE SUBJECT TO CHANGE, AND WILL CHANGE, FROM TIME TO TIME. THE CITY HAS NOT COMMITTED ITSELF TO PROVIDE INVESTORS WITH UPDATED FORECASTS OR PROJECTIONS.

NEITHER SPU'S INDEPENDENT AUDITORS, NOR ANY OTHER INDEPENDENT ACCOUNTANTS, HAVE COMPILED, EXAMINED OR PERFORMED ANY PROCEDURES WITH RESPECT TO THE PROSPECTIVE FINANCIAL INFORMATION CONTAINED HEREIN, NOR HAVE THEY EXPRESSED ANY OPINION OR ANY OTHER FORM OF ASSURANCE ON SUCH INFORMATION OR ITS ACHIEVABILITY, AND ASSUME NO RESPONSIBILITY FOR, AND DISCLAIM ANY ASSOCIATION WITH, THE PROSPECTIVE FINANCIAL INFORMATION.

WATER SYSTEM OPERATING RESULTS

	1998	1999	2000	2001	2002	2003	2004
Operating Revenue							
Water Sales	\$ 81,502,212	\$ 85,262,080	\$ 104,181,106	\$ 103,827,467	\$ 116,634,076	\$ 126,558,171	\$ 140,664,776
Other	1,345,067	992,697	1,177,201	1,517,850	1,526,054	1,873,000	1,873,000
Total Operating Revenue	\$ 82,847,279	\$ 86,254,777	\$ 105,358,307	\$ 105,345,317	\$ 118,160,130	\$ 128,431,171	\$ 142,537,776
Other Income							
Interest Income-Other	\$ 2,485,622	\$ 1,948,977	\$ 7,106,312	\$ 2,206,350	\$ 1,147,940	\$ 1,051,582	\$ 1,490,685
Timber Income and Other, Net	460,104	(406,448)	1,281,234	1,456,845	(175,146)	1,926,250	1,731,684
Total Other Income	\$ 2,945,726	\$ 1,542,529	\$ 8,387,546	\$ 3,663,195	\$ 972,794	\$ 2,977,832	\$ 3,222,369
Operating Expenses							
Operating and Maintenance Expenses							
Expenses	\$ 42,740,762	\$ 45,385,001	\$ 44,326,034	\$ 51,735,755	\$ 53,895,481	\$ 52,821,638	\$ 55,982,314
Taxes Other Than City Taxes	3,041,004	3,186,323	3,684,762	3,705,544	3,928,747	4,658,649	5,091,387
Other Expenses							
City Taxes	5,447,946	5,670,494	6,890,171	7,157,162	7,867,504	8,766,440	9,622,465
Depreciation	18,616,744	19,625,179	18,424,697	23,748,307	25,171,216	29,724,134	31,937,179
Total Operating Expenses	\$ 69,846,456	\$ 73,866,997	\$ 73,325,664	\$ 86,346,768	\$ 90,862,948	\$ 95,970,861	\$ 102,633,345
Loss on Tacoma Project ⁽¹⁾	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,636,051	\$ 0	\$ 0
Interest Expenses and Amortization of Debt Issue Costs and Net Discount	15,555,390	17,342,738	19,692,141	23,248,432	25,230,559	31,777,475	36,716,504
Net Income ⁽²⁾	\$ 391,159	\$ (3,412,429)	\$ 20,728,048	\$ 4,883,993	\$ 2,570,409	\$ 8,359,913	\$ 11,155,503
Contributions in Aid of Construction	\$ 5,276,752	\$ 7,457,305	\$ 5,183,193	\$ 5,470,681	\$ 6,167,043	\$ 4,699,246	\$ 4,745,206
Transfer to/from Rate Stabilization Fund	5,800,000	0	(4,252,000)	1,252,000	3,000,000	(2,500,000)	(2,500,000)
Accrued and Other Non-Cash Expenses	(124,742)	4,612,609	(18,004)	688,494	517,083	0	0
Revenue Available for Debt Service ⁽³⁾	\$ 50,963,249	\$ 51,295,896	\$ 66,648,246	\$ 60,978,388	\$ 70,992,822	\$ 76,127,961	\$ 86,931,650
Debt Service							
Parity Lien Debt Service	\$ 25,491,770	\$ 31,177,241	\$ 41,316,088	\$ 44,540,206	\$ 47,116,045	\$ 47,104,898	\$ 52,534,172
Subordinate Lien Debt Service	1,477,558	1,647,215	2,728,236	2,323,115	2,149,126	6,751,450	6,807,554
Total Debt Service	\$ 26,969,328	\$ 32,824,456	\$ 44,044,324	\$ 46,863,321	\$ 49,265,171	\$ 53,856,348	\$ 59,341,726
Debt Service Coverage							
Parity Lien Debt Service Coverage	2.00	1.65	1.61	1.37	1.51	1.62	1.65
Subordinate Lien Debt Service Coverage	17.24	12.21	9.29	7.08	11.11	4.30	5.05
Overall Debt Service Coverage	1.89	1.56	1.51	1.30	1.44	1.41	1.46

(1) The City has elected not to participate in the Tacoma Project. Life-to-date costs are recorded as an extraordinary expense. See "Water Supply and Conservation."

(2) Net income in 2001 through 2004 includes contributions in aid of construction.

(3) Revenue available for debt service = net income (including contributions in aid of construction) + City taxes + depreciation + interest expenses + debt cost amortization +/- Rate Stabilization Account transfers + accrued and other non-cash expenses. Under the City charter, City taxes are payable after payment of debt service. The 2002 loss on the Tacoma Project is excluded from the coverage calculation as an extraordinary non-operations expense.

Source: Seattle Public Utilities

The Water System has been designed and maintained to require a minimum of pumping, and does not rely on outside sources to meet water demand. Productivity improvements and reallocation of resources have allowed the Water System to manage an increasing work load related to environmental, water quality and governance issues with modest increases in operating and maintenance expenses over the last five years. However, during the last five years SPU has greatly expanded the size of its CIP and has raised rates to support these investments.

Operating revenues are generated primarily from wholesale and retail water sales. From 1998 to 2002, revenue increased by 43 percent, all of which was attributable to rate increases as there was no demand growth during this period. See “Water Rates.”

The Water System is currently managing a significant plan of additions, including operating cost increases due to new facilities. Debt service coverage levels have been below policy targets for the last four years in order to provide a stable path of water rate increases and avoid rate shocks. Low demand in response to the 2001 drought and the continuance of drought-related conservation habits contributed to reduced coverage levels in 2001 and 2002. However, cash and net income targets were met during this period. Adopted rate increases effective September 16, 2002, and January 1, 2004, were designed to achieve financial performance targets in 2003 and 2004, even after deposits of \$2.5 million to the Rate Stabilization Account each year. Demand modeling conducted since September 2002 resulted in the somewhat lower projections of water sales and the reduced financial performance shown in this section.

Operations costs of the Water System are increasing because of new treatment facilities. Activation of the new Tolt River treatment plant increased operations costs by about \$2.3 million in 2001. Operations costs for this facility for 2002 and 2003 are expected to increase at the rate of inflation. A new facility is expected to begin treating water from the Cedar River source in 2004. Operations costs for Cedar River treatment are expected to be \$900,000 in 2004 and \$2.5 million in 2005, and to increase at the rate of inflation thereafter. SPU is not subject to unanticipated increases in water purchase costs as its own supplies of water are sufficient to meet demand in this period. With the exception of the project-related operations cost increases above, operating expenses are expected to increase with the rate of inflation.

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

Incorporated in 1869, the City of Seattle, Washington, is the largest city in the Pacific Northwest and is the county seat of King County (the “County”). The City’s elected officials are a mayor, nine City Council members and a city attorney. These officials are elected at large to four-year terms. The City provides four utility services funded by rates and charges: electricity, water, drainage and wastewater, and solid waste.

Financial Management

City financial management functions are provided by the Department of Finance. Dwight D. Dively is the Director of Finance. Mr. Dively is a graduate of Rose-Hulman Institute of Technology, holds a master’s degree from Princeton University in public affairs and is a Ph.C. in civil engineering at the University of Washington.

Accounting. The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor’s Office, Division of Municipal Corporations, which maintains a resident staff at the City to perform a continual current audit as well as the annual post-fiscal year audit of City financial operations. The Department of Finance maintains general supervision over financial transactions of all City funds. In addition, the City’s utilities are audited annually by an external auditor.

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the Auditor's examinations are required to be filed in the office of the State Auditor and in the Department of Finance. The City's Comprehensive Annual Financial Report may be obtained from the Department of Finance by calling (206) 684-8300.

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Office within the Department of Finance pursuant to State statute (Chapter 35.32A RCW). The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is from January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt the budget at least 30 days before the beginning of the next fiscal year.

Investments. **The information in this section does not pertain to pension funds, which are administered by the Seattle City Employees' Retirement System, and some debt issuance proceeds that are administered by trustee service providers.**

All cash-related transactions for the City, including its utilities, are administered by the Treasury Division of the Department of Finance. City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Division in the following securities:

- (i) U.S. Treasury and agency issues;
- (ii) bankers' acceptances sold on the secondary market;
- (iii) repurchase and reverse repurchase agreements, when structured with securities eligible for purchase and when executed under an approved Master Repurchase Agreement with selected primary dealers; and
- (iv) commercial paper purchased in the secondary market which has received the highest ratings of at least two nationally recognized rating agencies.

State statutes, City ordinances and Department of Finance policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies require periodic reporting about the City's investment portfolio to the Mayor and the City Council. The City's investment operations are reviewed by the City Auditor and by the State Examiner.

As of March 31, 2003, the combined investment portfolios of the City totaled \$712.1 million at book value. The City's cash pool is constituted solely of City funds. The City does not invest any of its funds in other pools, with the exception of tax collection receipts initially held by the County and funds of the Seattle City Employees' Retirement System and the Deferred Compensation Plan. The year-to-date yield on the City's consolidated pool of investments as of March 31, 2003, was 3.8 percent. As of March 31, 2003, the average maturity date of the portfolio was March 15, 2005. Approximately 28.6 percent, or \$203.5 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years. Investments were allocated as follows:

U.S. Treasury Securities	66.9%
Commercial Paper	23.9
Federal Farm Credit Bank	4.4
Federal Discount Notes	3.5
Certificates of Deposit	1.2
Mortgage-Backed Securities	0.1

Interfund Loans. City ordinances authorize the Director of Finance to approve interfund loans for a duration of up to 90 days and to establish a rate of interest on such loans. Extension or renewal of interfund loans requires City Council approval by ordinance. The Director of Finance also is authorized by City ordinance to make loans to individual funds participating in a common investment portfolio by carrying funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by ordinance, to the extent that such loans can be supported prudently by the common investment portfolio and the borrowing fund is reasonably expected to be able to repay the loan. Loans of this type bear interest at the common investment portfolio's rate of return.

Risk Management

The City maintains \$25,000,000 liability insurance, with a \$2,500,000 self-insured retention for each occurrence. The City also maintains \$200,000,000 property insurance, with a \$100,000 deductible for each occurrence, on City-owned buildings with value greater than the deductible, unless insurance of at least equivalent value is provided by other parties. Hydroelectric projects owned by the City are not insured. Workers compensation is insured to statutory limits, with a \$500,000 self-insured retention for each occurrence. In addition, insurance policies are purchased to cover other property and casualty exposure.

Pension System

Nearly all permanent non-uniformed City employees participate in the Seattle City Employees' Retirement System (the "Plan"), a single employer public employee retirement system. The payroll for City employees covered by the Plan for the year ended December 31, 2001, was \$405.0 million; total City payroll was \$619.5 million. Nearly all City employees are required to contribute 8.03 percent of their annual base salary to the Plan, and the City contributes an additional 8.03 percent. As of January 1, 2001, system assets exceeded the accrued actuarial liability. The actuarial present value of future benefits was \$1.988 billion, the actuarial present value of future normal costs for present members was \$497.8 million and the actuarial value of assets available for benefits was \$1.493 billion. Combined employee and employer contributions to the Plan totaled approximately \$69.3 million for the year ending December 31, 2001. Due to declining investment returns, the system's unfunded liability as of January 1, 2003, has increased significantly.

Labor Relations

The City has 34 separate departments and offices with approximately 13,000 regular and temporary employees. Thirty different unions and 45 bargaining units represent approximately 75 percent of the City's regular employees. The City's contract with the Seattle Police Officers Guild expired on December 31, 2002, and negotiations for a successor contract are underway. The parties are using an "interest-based" approach rather than traditional positional bargaining. The contract with the Seattle Police Management Association (representing lieutenants and captains in the Police Department) expired at the end of 2001, and negotiations for a successor contract are continuing. The City is currently in the middle of three-year contracts with the coalition of City unions representing most non-uniformed City employees, and with IBEW Local 77, which represents electrical workers in the City Light and Transportation departments. The City also has agreements with Firefighters Local 27 and Fire Chiefs Local 2898 that generally extend through 2004.

INITIATIVE AND REFERENDUM

Under the State Constitution, Washington voters may initiate legislation and require the Legislature to refer legislation to the voters through the powers of initiative and referendum, respectively. Any such law approved by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

The three most recent State-wide tax-related initiatives approved by State voters did not purport to affect utility rates or charges, though earlier voter-passed initiatives, which were invalidated by the State courts, might have affected utility rates or charges. Other tax and fee initiative measures have been and may be filed, but it cannot be predicted whether any such initiatives might gain sufficient signatures to qualify for submission to the Legislature and/or the voters or, if submitted, whether they ultimately would become law.

Under the City Charter, Seattle voters also may initiate local legislation and City Charter amendments and through referendum may prevent legislation passed by the City Council from becoming law.

LEGAL AND TAX INFORMATION

Litigation

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds.

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Bond Counsel. A form of the opinion of such firm with respect to the Bonds is attached hereto as Appendix B. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation’s adjusted current earnings (including any tax-exempt interest) over the corporation’s alternative minimum taxable income determined without regard to such increase. A corporation’s alternative minimum taxable income, so computed, that is in excess of an

exemption of \$40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20 percent minimum tax.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for a small business corporation that had average gross receipts of less than \$5 million for the three-year period beginning after December 31, 1994, and such a small business corporation will continue to be exempt from the corporate alternative minimum tax so long as its average gross receipts do not exceed \$7.5 million.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Certain Other Federal Tax Consequences

Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with its subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

Original Issue Discount. The Bonds maturing on September 1, 2025, have been sold at prices reflecting original issue discount ("Discount Bonds"). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to

the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment, or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

Original Issue Premium

The Bonds maturing on September 1 in the years 2003 through 2024, inclusive, and on September 1, 2033, have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

Continuing Disclosure Undertaking

Basic Undertaking to Provide Annual Financial Information and Notice of Material Events. To meet the requirements of United States Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) (the "Rule"), as applicable to a participating underwriter for the Bonds, the City will undertake in the Bond Legislation (the "Undertaking") for the benefit of holders of the Bonds, as follows.

Annual Financial Information. The City will provide or cause to be provided to each nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule (“NRMSIR”) and to a state information depository, if one is established in the State of Washington and recognized by the SEC (the “SID”), annual financial information and operating data of the type included in this Official Statement with respect to the Water System as generally described below (“annual financial information”):

- (i) annual financial statements of the Water System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law; which statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City they will be provided;
- (ii) a statement of authorized, issued and outstanding bonded debt secured by Net Revenue of the Water System;
- (iii) debt service coverage ratios;
- (iv) summary operating statistics for the Water System, including population served, water sales revenue and billed water use; and
- (v) current water rates.

Annual financial information described above will be provided to each NRMSIR and the SID not later than the last day of the ninth month after the end of each fiscal year of the City, as such fiscal year may be changed as permitted or required by State law, commencing with the City’s fiscal year ending December 31, 2003. The annual information may be provided in a single or in multiple documents, and may be incorporated by reference from other documents, including official statements of debt issues with respect to which the City is an obligated person as defined by the Rule, which documents have been filed with each NRMSIR and the SID. If the document incorporated is a “final official statement” (as defined by the Rule) with respect to which the City is an obligated person, it must be available from the Municipal Securities Rulemaking Board (“MSRB”).

The City also will provide or cause to be provided to each NRMSIR or to the MSRB, and to the SID, timely notice of a failure by the City to provide required annual financial information on or before the date specified above.

Material Events. The City further will provide or cause to be provided to each NRMSIR or the MSRB, and to the SID, timely notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of holders of the Bonds;
- (viii) Bond calls (other than scheduled mandatory redemption of Term Bonds);
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

For purposes of this section, “Continuing Disclosure Undertaking,” the term “holders of the Bonds” will have the meaning intended for such term under the Rule.

Amendment of Undertaking. The Undertaking may be amended without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID, or the MSRB, under the circumstances and in the manner permitted by the Rule.

The City will give notice to each NRMSIR or the MSRB, and to the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The City's obligations under the Undertaking will terminate upon the legal defeasance, prior redemption or payment in full of all of the then outstanding Bonds. In addition, the Undertaking, or any provision thereof, will be null and void if the City (i) obtains an opinion of nationally recognized bond counsel or other counsel familiar with the federal securities laws to the effect that those portions of the Rule which require the City to comply with the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (ii) so notifies the SID and either the MSRB or each then existing NRMSIR of such termination.

Remedy for Failure to Comply with Undertaking. If the City fails to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the City learns of that failure.

No failure by the City (or any other obligated person) to comply with the Undertaking will constitute a default with respect to the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary and appropriate to compel the City or other obligated person to comply with the Undertaking. The Undertaking will inure to the benefit of the City and any holder of the Bonds, and will not inure to the benefit of or create any rights in any other person.

Other Continuing Disclosure Undertakings of the City. The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City on and after July 3, 1995, subject to the Rule. The City is in compliance with all such undertakings.

OTHER BOND INFORMATION

Bond Insurance

The City makes no representation as to the accuracy or completeness of the following information, which has been furnished by MBIA Insurance Corporation.

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix G for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA. MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "Bond Insurance." Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information. The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such

statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2002, June 30, 2002 and September 30, 2002), are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA. Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Ratings on the Bonds

As noted on the cover page of this Official Statement, the Bonds have been rated "Aaa" and "AAA" by Moody's and S&P, respectively, based on the issuance of the Bond Insurance Policy by MBIA simultaneously with the closing of the Bonds. The Bonds have been assigned underlying ratings of "Aa2" and "AA." The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

The Bonds are being purchased by Merrill Lynch (the “Purchaser”) at a price of \$284,499,907.38 and reoffered at a price of \$284,971,627.05. The Bonds will be reoffered at the prices or yields set forth on the cover of this Official Statement. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof, and such initial offering prices may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices may be varied from time to time.

So far as any statements are made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Information concerning the City, SPU and the Water System contained in this Official Statement has been furnished by the City. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of any of the Bonds.

The City of Seattle

By: /s/
Dwight D. Dively
Director of Finance

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APPENDIX A

ORDINANCE

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ORDINANCE _____

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to or extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds for the purposes of paying part of the cost of carrying out that system or plan, providing a bond reserve, refunding a portion of the City's outstanding water system revenue bonds and paying the costs of issuing and selling the bonds authorized herein; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds; and creating certain accounts of the City relating to those bonds.

Passed _____, 2003

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ORDINANCE _____

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to or extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds for the purposes of paying part of the cost of carrying out that system or plan, providing a bond reserve, refunding a portion of the City's outstanding water system revenue bonds and paying the costs of issuing and selling the bonds authorized herein; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds; and creating certain accounts of the City relating to those bonds.

WHEREAS, The City of Seattle (the "City") owns and operates a municipal water system (the "Municipal Water System"); and

WHEREAS, pursuant to Ordinance 116705 and Resolution 28745 (the "Refunded Bond Legislation") the City issued its Two Hundred Fifty-Six Million Two Hundred Fifty-Five Thousand Dollars (\$256,255,000) principal amount Water System and Refunding Revenue Bonds, 1993 (the "1993 Bonds") payable from and having a charge and lien upon the Net Revenue of the Municipal Water System prior and superior to all other charges whatsoever; and

WHEREAS, there are presently outstanding One Hundred Sixty-Eight Million Five Hundred Thirty Thousand Dollars (\$168,530,000) par value of the 1993 Bonds maturing on or after December 1, 2003, and bearing interest at various rates from 5.0% through 5.5% per annum (the "Refundable Bonds"); and

WHEREAS, pursuant to the Refunded Bond Legislation, the City reserved the right to redeem the Refundable Bonds prior to their stated maturity dates on or after June 1, 2003, as a whole at any time or in part on any interest payment date at the redemption prices set forth in the Refunded Bond Legislation; and

WHEREAS, the City has need to acquire and construct certain additions or betterments to or extensions of the Municipal Water System described in the system or plan adopted by this ordinance (the "Plan of Additions"); and

WHEREAS, by Section 24 of Ordinance 116705, the City reserved the right to issue revenue bonds and other obligations having a charge and lien upon the Net Revenue of the Municipal Water System on a parity with the charge and lien of the 1993 Bonds ("Parity Bonds") upon compliance with certain conditions described therein; and

WHEREAS, the City has determined to issue its water system revenue bonds on a parity of charge and lien with the 1993 Bonds and all other Parity Bonds then outstanding to pay part of the cost of carrying out the Plan of Additions, to refund all or a portion of the Refundable Bonds, and to provide a reserve for and pay the costs of issuing and selling those bonds; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE, WASHINGTON, AS FOLLOWS:

1 **Section 1. Definitions.** As used in this ordinance and for the purposes of this
2 ordinance the following words shall have the following meanings:

3 **“Accreted Value”** means:

4 (1) with respect to any Capital Appreciation Bonds, as of the time of
5 calculation, the sum of the amount representing the initial principal amount of such
6 Capital Appreciation Bonds as set forth in the applicable Parity Bond Authorizing
7 Ordinance plus the interest accumulated, compounded and unpaid thereon as of the most
8 recent compounding date, or

9 (2) with respect to original issue discount bonds under the Code, as of
10 the time of calculation, the amount representing the initial public offering price of such
11 original issue discount bonds plus the amount of the discounted principal which has
12 accreted since the date of issue, determined in accordance with the provisions of the
13 applicable Parity Bond Authorizing Ordinance.

14 **“Adjusted Annual Debt Service”** for any fiscal year means Annual Debt Service
15 minus (1) an amount equal to ULID Assessments due in that year and not delinquent, (2)
16 an amount equal to earnings from investments in the Reserve Subaccount and (3) Annual
17 Debt Service provided for by Parity Bond proceeds.

18 **“Adjusted Gross Revenue of the Municipal Water System”** or **“Adjusted**
19 **Gross Revenue”** means Gross Revenue of the Municipal Water System plus withdrawals
20 from the Rate Stabilization Account and minus (1) ULID Assessments, (2) earnings
21 from investments in the Reserve Subaccount and (3) deposits into the Rate Stabilization
22 Account.

23 **“Adjusted Net Revenue of the Municipal Water System”** or **“Adjusted Net**
24 **Revenue”** means Adjusted Gross Revenue less Operation and Maintenance Expenses.
25
26

1 **“Annual Debt Service”** means, for any fiscal year of the City, all amounts
2 required to be paid in respect of interest on and principal of Parity Bonds and Payment
3 Agreement Payments in respect of Parity Payment Agreements, subject to the following:

4 (i) Debt Service on Term Bonds. For purposes of calculating debt
5 service on Term Bonds, only the scheduled mandatory redemption amounts payable in
6 respect of principal of Term Bonds shall be taken into account in any fiscal year prior to
7 the Term Bond Maturity Year, and only the principal amount scheduled to remain
8 outstanding after payment of all prior mandatory redemption amounts shall be taken into
9 account in the Term Bond Maturity Year;

10 (ii) Interest on Parity Bonds. For purposes of determining compliance
11 with the Coverage Requirement, the Reserve Requirement and conditions for the
12 issuance of Future Parity Bonds,

13 (A) Generally. Except as otherwise provided by subparagraph
14 (ii)(B) with respect to Variable Interest Rate Bonds and by subparagraph (ii)(C) with
15 respect to Parity Bonds with respect to which a Payment Agreement is in force, interest
16 on any issue of Parity Bonds shall be calculated based on the actual amount of accrued,
17 accreted or otherwise accumulated interest that is payable in respect of that issue taken as
18 a whole, at the rate or rates set forth in the Parity Bond Authorizing Ordinance;

19 (B) Interest on Variable Interest Rate Bonds. The amount of
20 interest deemed to be payable on any issue of Variable Interest Rate Bonds shall be
21 calculated on the assumption that the interest rate on those bonds would be equal to the
22 rate (the “assumed RBI-based rate”) that is ninety percent (90%) of the average RBI
23 during the fiscal quarter preceding the quarter in which the calculation is made;

24 (C) Interest on Parity Bonds With Respect to Which a Payment
25 Agreement is in Force. Debt service on Parity Bonds with respect to which a Payment
26 Agreement is in force shall be based on the net economic effect on the City expected to

1 be produced by the terms of the Parity Bonds and the terms of the Payment Agreement,
2 including but not limited to the effects that (i) Parity Bonds that would, but for a Payment
3 Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead
4 shall be treated as obligations bearing interest at a fixed interest rate, and (ii) Parity
5 Bonds that would, but for a Payment Agreement, be treated as obligations bearing
6 interest at a fixed interest rate instead shall be treated as obligations bearing interest at a
7 Variable Interest Rate. Accordingly, the amount of interest deemed to be payable on any
8 Parity Bonds with respect to which a Payment Agreement is in force shall be an amount
9 equal to the amount of interest that would be payable at the rate or rates stated in those
10 Parity Bonds plus Payment Agreement Payments minus Payment Agreement Receipts.
11 For the purposes of calculating as nearly as practicable Payment Agreement Receipts and
12 Payment Agreement Payments under a Payment Agreement, the following assumptions
13 shall be made:

14 (1) Counterparty Obligated to Pay Actual Variable
15 Interest on Variable Interest Rate Bonds. If any Payment Agreement obligates a
16 Qualified Counterparty to make payments to the City based on the actual Variable
17 Interest Rate on Parity Bonds that would, but for the Payment Agreement, be treated as
18 Variable Interest Rate Bonds and obligates the City to make payments to the Qualified
19 Counterparty based on a fixed rate, payments by the City to the Qualified Counterparty
20 shall be assumed to be made at the fixed rate specified by the Payment Agreement and
21 payments by the Qualified Counterparty to the City shall be assumed to be made at the
22 actual Variable Interest Rate on such Parity Bonds, without regard to the occurrence of
23 any event that, under the provisions of the Payment Agreement, would permit the
24 Qualified Counterparty to make payments on any basis other than the actual Variable
25 Interest Rate on such Parity Bonds, and the Parity Bond Authorizing Ordinance shall set
26 forth a debt service schedule for those Parity Bonds based on that assumption;

1 (2) Variable Interest Rate Bonds and Payment
2 Agreements Having the Same Variable Rate Component. If both a Payment Agreement
3 and related Parity Bonds that would, but for the Payment Agreement, be treated as
4 Variable Interest Rate Bonds include a variable rate payment component that is required
5 to be calculated on the same basis (including, without limitation, on the basis of the same
6 variable rate index), it shall be assumed that the variable rate payment component
7 payable pursuant to the Payment Agreement is equal in amount to the variable rate
8 interest component payable on those Parity Bonds;

9 (3) Variable Interest Rate Bonds and Payment
10 Agreements Having Different Variable Rate Interest Components. If a Payment
11 Agreement obligates either the City or the Qualified Counterparty to make payments of a
12 variable rate interest component on a basis that is different (including, without limitation,
13 on a different variable rate index) from the basis that is required to be used to calculate
14 interest on the Parity Bonds that would, but for the Payment Agreement, be treated as
15 Variable Interest Rate Bonds, it shall be assumed:

16 (a) City Obligated to Make Payments Based on
17 Variable Rate Index. If payments by the City under the Payment Agreement are to be
18 based on a variable rate index and payments by the Qualified Counterparty are to be
19 based on a fixed rate, that payments by the City to the Qualified Counterparty will be
20 based upon an interest rate equal to the assumed RBI-based rate, and that payments by
21 the Qualified Counterparty to the City will be based on the fixed rate specified by the
22 Payment Agreement; and

23 (b) City Obligated to Make Payments Based on
24 Fixed Rate. If payments by the City under the Payment Agreement are to be based on a
25 fixed rate and payments by the Qualified Counterparty are to be based on a variable rate
26 index, that payments by the City to the Qualified Counterparty will be based on an

1 interest rate equal to the rate (the “assumed fixed payor rate”) that is one hundred and
2 five percent (105%) of the fixed rate specified by the Payment Agreement, and that
3 payments by the Qualified Counterparty to the City will be based on a rate equal to the
4 actual Variable Interest Rate on the Variable Interest Rate Bonds;

5 (4) Certain Payment Agreements May be Disregarded.

6 Notwithstanding the provisions of subparagraphs (ii)(C)(1), (2) and (3) of this definition,
7 the City shall not be required to (but may in its discretion) take into account in
8 determining Annual Debt Service the effects of any Payment Agreement that has a term
9 of ten (10) years or less;

10 (D) Debt Service on Parity Payment Agreements. No

11 additional debt service shall be taken into account with respect to a Parity Payment
12 Agreement for any period during which Payment Agreement Payments on that Parity
13 Payment Agreement are taken into account in determining Annual Debt Service on
14 related Parity Bonds under subparagraph (ii)(C) of this definition. However, for any
15 period during which Payment Agreement Payments are not taken into account in
16 calculating Annual Debt Service on any outstanding Parity Bonds because the Parity
17 Payment Agreement is not then related to any outstanding Parity Bonds, debt service on
18 that Parity Payment Agreement shall be taken into account by assuming:

19 (1) City Obligated to Make Payments Based on Fixed

20 Rate. If the City is obligated to make Payment Agreement Payments based on a fixed
21 rate and the Qualified Counterparty is obligated to make payments based on a variable
22 rate index, that payments by the City will be based on the assumed fixed payor rate, and
23 that payments by the Qualified Counterparty will be based on a rate equal to the average
24 rate determined by the variable rate index specified by the Parity Payment Agreement
25 during the fiscal quarter preceding the quarter in which the calculation is made, and
26

1 (2) City Obligated to Make Payments Based on
2 Variable Rate Index. If the City is obligated to make Payment Agreement Payments
3 based on a variable rate index and the Qualified Counterparty is obligated to make
4 payment based on a fixed rate, that payments by the City will be based on a rate equal to
5 the average rate determined by the variable rate index specified by the Parity Payment
6 Agreement during the fiscal quarter preceding the quarter in which the calculation is
7 made, and that the Qualified Counterparty will make payments based on the fixed rate
8 specified by the Parity Payment Agreement; and

9 (E) Balloon Bonds. For purposes of calculating debt service on
10 any Balloon Bonds, it shall be assumed that the principal of those Balloon Bonds,
11 together with interest thereon at a rate equal to the assumed RBI-based rate, will be
12 amortized in equal annual installments over a term of thirty (30) years.

13 **“Average Annual Debt Service”** means the sum of the Annual Debt Service for
14 the remaining years to the last scheduled maturity of the applicable issue or issues of
15 Parity Bonds divided by the number of those years.

16 **“Balloon Bonds”** means any series of Parity Bonds designated as Balloon Bonds
17 in the applicable Parity Bond Authorizing Ordinance.

18 **“Bond Account”** means that special account of the City known as the Water
19 Revenue Bond Account created by Ordinance 116705 in the Water Fund of the City for
20 the payment of the principal of, mandatory sinking fund payments, Payment Agreement
21 Payments, premiums, (if any), and interest on the Parity Bonds.

22 **“Bond Counsel”** means a firm of lawyers nationally recognized and accepted as
23 bond counsel and so employed by the City for any purpose under this ordinance
24 applicable to the use of that term.
25
26

1 **“Bond Insurance”** means any bond insurance, letter of credit, guaranty, surety
2 bond or similar credit enhancement device providing for or securing the payment of all or
3 part of the principal of and interest on any Parity Bonds.

4 **“Bond Insurer”** means any provider of Bond Insurance approved by the City
5 Council by ordinance or resolution.

6 **“Bond Register”** means the books or records maintained by the Bond Registrar
7 on which are recorded the names and addresses of the Registered Owners of each of the
8 Bonds.

9 **“Bond Registrar”** or **“Registrar”** :means the Fiscal Agency of the State of
10 Washington, or any successor bond registrar selected by the City, whose duties include
11 the registration and authentication of the Bonds, maintenance of the Bond Register,
12 effecting transfer of ownership of the Bonds, and paying the principal of and premium, if
13 any, and interest on the Bonds.

14 **“Bond Resolution”** means one or more resolutions of the City Council adopted
15 pursuant to this ordinance and confirming the sale and final terms of the Bonds.

16 **“Bonds”** means the bonds authorized to be issued pursuant to, under the authority
17 of and for the purposes provided in this ordinance.

18 **“1993 Bonds”** means the Water System and Refunding Revenue Bonds, 1993, of
19 the City, issued pursuant to Ordinance 116705 and Resolution 28745.

20 **“1997 Bonds”** means the Water System Revenue Bonds, 1997, of the City, issued
21 pursuant to Ordinance 118512 and Resolution 29553.

22 **“1998 Bonds”** means the Water System Revenue Bonds, 1998, of the City, issued
23 pursuant to Ordinance 118973 and Resolution 29785.

24 **“1999A Bonds”** means the Water System Revenue Bonds, 1999, of the City,
25 issued pursuant to Ordinance 119457 and Resolution 29973.
26

1 **“1999B Bonds”** means the Water System Revenue Bonds, 1999, Series B of the
2 City, issued pursuant to Ordinance 119649 and Resolution 30057.

3 **“2001 Bonds”** means the Water System Refunding and Revenue Bonds, 2001, of
4 the City, issued pursuant to Ordinance 120547 and Resolution 30419.

5 **“Capital Appreciation Bonds”** means any Parity Bonds, all or a portion of the
6 interest on which is compounded and accumulated at the rates or in the manner, and on
7 the dates, set forth in the applicable Parity Bond Authorizing Ordinance and is payable
8 only upon redemption or on the maturity date of such Parity Bonds. Parity Bonds that are
9 issued as Capital Appreciation Bonds, but later convert to obligations on which interest is
10 paid periodically, shall be Capital Appreciation Bonds until the conversion date and
11 thereafter shall no longer be Capital Appreciation Bonds, but shall be treated as having a
12 principal amount equal to their Accreted Value on the conversion date.

13 **“CIP”** means the portion or portions relating to the Municipal Water System of
14 the “2003-2008 Capital Improvement Program” of the City as adopted by the City in
15 Ordinance 120973, together with any previous adopted Capital Improvement Program of
16 the City, as that Capital Improvement Program may be amended, updated, supplemented
17 or replaced from time to time.

18 **“City”** means The City of Seattle, Washington.

19 **“City Clerk”** means the City Clerk of the City, or any other officer who succeeds
20 to substantially all of the responsibilities of that office specified in this ordinance.

21 **“City Council”** means the City Council of the City, as duly and regularly
22 constituted from time to time.

23 **“Code”** means the Internal Revenue Code of 1986, as amended, and applicable
24 rules and regulations promulgated thereunder.
25
26

1 **“Construction Account”** means the Water System Construction Subaccount,
2 2003, created by this ordinance in the Water System Construction Account, which
3 account was previously created in the Water Fund.

4 **“Contract Resource Obligation”** means an obligation of the City, designated as
5 a Contract Resource Obligation and entered into pursuant to Section 26 of this ordinance,
6 to make payments for water supply, transmission or other commodity or service to
7 another person or entity (including without limitation a separate utility system created
8 pursuant to Section 25 of this ordinance).

9 **“Coverage Requirement”** in any fiscal year of the City means an amount of
10 Adjusted Net Revenue of the Municipal Water System equal to at least 1.25 times the
11 Adjusted Annual Debt Service that year on all Parity Bonds.

12 **“Director of Finance”** means the Director of the Department of Finance of the
13 City, or any other officer who succeeds to substantially all of the responsibilities of that
14 office specified in this ordinance.

15 **“DTC”** means The Depository Trust Company, New York, New York, as initial
16 Securities Depository for the Bonds.

17 **“Event of Default”** shall have the meaning assigned to that term in Section 31(a)
18 of this ordinance.

19 **“Fiscal Agency”** means either of the fiscal agencies of the State of Washington
20 located in Seattle, Washington, and New York, New York, or any other paying
21 agent/registrar of the City, as the same may be designated in the Bond Resolution or
22 otherwise designated from time to time.

23 **“Future Parity Bonds”** means all revenue bonds and other obligations (including
24 Parity Payment Agreements) of the City issued or entered into after the date of the
25 issuance of the Bonds and then outstanding, the payment of which constitutes a charge
26

1 and lien on the Net Revenue of the Municipal Water System equal in rank with the
2 charge and lien upon such revenue required to be paid into the Bond Account to pay and
3 secure the payment of the principal of and interest on the Parity Bonds, including the
4 Bonds.

5 **“Government Obligations”** means those government obligations defined by
6 RCW 39.53.010(9) as it now reads or hereafter may be amended or replaced.

7 **“Gross Revenue of the Municipal Water System”** or **“Gross Revenue”** means
8 in any fiscal year of the City all of the revenues of the Municipal Water System,
9 including but not limited to revenue from the sale or transmission of water; the sale, lease
10 or furnishing of other commodities, services, properties or facilities; the imposition of
11 connection, capital improvement or other charges; ULID Assessments; net receipts from
12 Payment Agreements; and earnings from the investment of money in the Water Fund.
13 However, Gross Revenue shall not include earnings of a separate utility system that may
14 be acquired or constructed by the City pursuant to Section 25 of this ordinance; principal
15 proceeds of Parity Bonds or other borrowings; or earnings or proceeds from any
16 investments in a trust, defeasance or escrow fund created to defease or refund Municipal
17 Water System obligations (until commingled with other earnings and revenues of the
18 Municipal Water System defined as Gross Revenue) or held in a special account for the
19 purpose of paying a rebate to the United States Government under the Code.

20 **“Independent Consulting Engineer”** means either (1) an independent licensed
21 professional engineer experienced in the design, construction or operation of municipal
22 utilities of comparable size and character to the Municipal Water System, or (2) an
23 independent certified public accountant or other professional consultant experienced in
24 the development of rates and charges for municipal utilities of comparable size and
25 character to the Municipal Water System.
26

1 **“Letter of Representations”** means the Letter of Representations relating to the
2 Bonds to be delivered by the City to DTC.

3 **“Maximum Annual Debt Service”** means at the time of calculation, the
4 maximum amount of Annual Debt Service that will mature or come due in the current
5 year or any future year on the Parity Bonds.

6 **“Municipal Water System”** means the water system of the City as it now exists,
7 and all additions thereto and betterments and extensions thereof at any time made for so
8 long as any of the Parity Bonds are outstanding. The Municipal Water System shall not
9 include any water supply or service or other facilities that may be created, acquired or
10 constructed by the City as a separate utility system as provided in Section 25 of this
11 ordinance.

12 *Upon the maturity, redemption or defeasance of all of the then outstanding 1993*
13 *Bonds, “Municipal Water System” shall be defined as follows:*

14 *“Municipal Water System” means the water system of the*
15 *City as it now exists, and all additions thereto and*
16 *betterments and extensions thereof at any time made,*
17 *together with any utility systems of the City hereinafter*
18 *combined with the Municipal Water System. The*
Municipal Water System shall not include any water supply
or other utility system service or other facilities that may be
created, acquired or constructed by the City as a separate
utility system as provided in Section 25 of this ordinance.

19 **“Net Revenue of the Municipal Water System”** or **“Net Revenue”** means the
20 Gross Revenue less Operation and Maintenance Expenses.

21 **“Operation and Maintenance Expenses”** means all expenses incurred by the
22 City in causing the Municipal Water System of the City to be operated and maintained in
23 good repair, working order and condition, including without limitation: deposits,
24 premiums, assessments or other payments for insurance, if any, on the Municipal Water
25 System; payments into pension funds; State-imposed taxes; amounts due under Contract
26 Resource Obligations (but only at the times described in Section 26 of this ordinance);

1 payments made to any other person or entity for the receipt of water supply or
2 transmission or other commodity or service; and payments with respect to any other
3 expenses of the Municipal Water System that are properly treated as operation and
4 maintenance expenses under generally accepted accounting principles applicable to
5 municipal corporations. Operation and Maintenance Expenses does not include any
6 depreciation or taxes levied or imposed by the City, or payments to the City in lieu of
7 taxes, or capital additions or capital replacements to the Municipal Water System.

8 **“Outstanding Parity Bonds”** means the then outstanding 1993 Bonds, 1997
9 Bonds, 1998 Bonds, 1999A, 1999B Bonds and 2001 Bonds.

10 **“Parity Bonds”** means the Outstanding Parity Bonds, the Bonds, and any Future
11 Parity Bonds.

12 **“Parity Bond Authorizing Ordinance”** means the ordinance and/or resolution
13 of the City that authorizes the issuance and sale and establishes the terms of a particular
14 issue of Parity Bonds and other matters relating to the same plan of finance.

15 **“Parity Payment Agreement”** means a Payment Agreement under which the
16 City’s payment obligations are expressly stated to constitute a charge and lien on the Net
17 Revenue of the Municipal Water System equal in rank with the charge and lien upon such
18 revenue required to be paid into the Bond Account to pay and secure the payment of the
19 principal of and interest on Parity Bonds.

20 *Upon the maturity, redemption or defeasance of all of the then outstanding 1993*
21 *Bonds, “Parity Payment Agreement” shall be defined as follows:*

22 *“Parity Payment Agreement” means a Payment Agreement*
23 *under which the City’s payment obligations are expressly*
24 *stated to constitute a charge and lien on the Net Revenue of*
25 *the Municipal Water System equal in rank with the charge*
26 *and lien upon such revenue required to be paid into the*
Bond Account to pay interest on Parity Bonds.

1 **“Payment Agreement”** means a written agreement, for the purpose of managing
2 or reducing the City’s exposure to fluctuations or levels of interest rates or for other
3 interest rate, investment, asset or liability management purposes, entered into on either a
4 current or forward basis by the City and a Qualified Counterparty as authorized by any
5 applicable laws of the State in connection with, or incidental to, the issuance, incurring or
6 carrying of particular bonds, notes, bond anticipation notes, commercial paper, or other
7 obligations for borrowed money, or lease, installment purchase or other similar financing
8 agreements or certificates of participation therein, that provides for an exchange of
9 payments based on interest rates, ceilings or floors on such payments, options on such
10 payments, or any combination thereof or any similar device.

11 **“Payment Agreement Payments”** means the amounts periodically required to be
12 paid by the City to the Qualified Counterparty pursuant to a Payment Agreement.

13 **“Payment Agreement Receipts”** means the amounts periodically required to be
14 paid by the Qualified Counterparty to the City pursuant to a Payment Agreement.

15 **“Plan of Additions”** means, collectively, the CIP and the Water System Plan, as
16 they may be modified hereafter as described herein.

17 **“Principal and Interest Subaccount”** means the account of that name created in
18 the Bond Account for the payment of the principal of and interest and mandatory
19 redemption requirements, if any, on the Parity Bonds.

20 **“Qualified Counterparty”** means a party (other than the City or a party related
21 to the City) who is the other party to a Payment Agreement and (1)(a) whose senior debt
22 obligations are rated in one of the three highest rating categories of each of the Rating
23 Agencies (without regard to any gradations within a rating category) or (b) whose
24 obligations under the Payment Agreement are guaranteed for the entire term of the
25 Payment Agreement by a bond insurer or other institution which has been assigned a
26 credit rating in one of the two highest rating categories of each of the Rating Agencies,

1 and (2) who is otherwise qualified to act as the other party to a Payment Agreement
2 under any applicable laws of the State.

3 **“Rate Stabilization Account”** means the account of that name created in the
4 Water Fund pursuant to Ordinance 116705 and redesignated for accounting purposes as
5 the Revenue Stabilization Subfund of the Water Fund pursuant to Ordinance 120875.

6 **“Rating Agencies”** means Moody’s Investors Service, Inc., and Standard &
7 Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc., and their
8 successors, and any other nationally-recognized securities rating agency or agencies
9 rating Parity Bonds at the request of the City.

10 **“RBI”** means The Bond Buyer Revenue Bond Index or comparable index, or, if
11 no comparable index can be obtained, eighty percent (80%) of the interest rate for
12 actively traded thirty (30) year United States Treasury obligations.

13 **“Refundable Bonds”** means all or a part of the 1993 Bonds maturing on and
14 after December 1, 2003.

15 **“Refunded Bonds”** means all or that portion of the Refundable Bonds included
16 in a Refunding Plan.

17 **“Refunded Bond Legislation”** means Ordinance 116705 and Resolution 28745,
18 pursuant to which the 1993 Bonds were issued.

19 **“Refunding Parity Bonds”** means Parity Bonds issued for the purpose of
20 refunding bonds of any prior series of Parity Bonds.

21 **“Refunding Plan”** means, for any series of Bonds:

22 (a) the deposit with the Refunding Trustee of a portion of the proceeds
23 of the Bonds which, together with other money deposited with the Refunding Trustee, is
24 sufficient to acquire the Acquired Obligations (as defined in the Bond Resolution);

25 (b) the acquisition by the Refunding Trustee of the Acquired
26 Obligations;

1 (c) the payment of the principal of and interest on the Refunded Bonds
2 when due up to and including the date set forth in the Bond Resolution, and the call,
3 payment and redemption on that date of all or a portion of the then-outstanding Refunded
4 Bonds, at the prices set forth in the Bond Resolution; and

5 (d) the payment of the costs of issuing the Bonds and the costs of
6 carrying out the foregoing elements of the Refunding Plan.

7 **“Refunding Trust Agreement”** means the Refunding Trust Agreement between
8 the City and a Refunding Trustee relating to a particular series of Bonds.

9 **“Refunding Trustee”** means the trustee or escrow agent, or any successor trustee
10 or escrow agent, with respect to a particular series of Bonds, designated by the Director
11 of Finance.

12 **“Registered Owner”** means the person shown on the Bond Register as the owner
13 of one or more Bonds.

14 **“Reserve Insurance”** means any bond insurance, letter of credit, guaranty, surety
15 bond or similar credit enhancement device obtained by the City equal to part or all of the
16 Reserve Requirement for any Parity Bonds which is issued by an institution which has
17 been assigned a credit rating at the time of issuance of the device in one of the two
18 highest rating categories of each of the Rating Agencies.

19 **“Reserve Requirement”** means as of any date the lesser of Maximum Annual
20 Debt Service or one hundred twenty-five percent (125%) of Average Annual Debt
21 Service on the Parity Bonds.

22 **“Reserve Subaccount”** means the account of that name created in the Bond
23 Account for the purpose of securing the payment of the principal of and interest on the
24 Parity Bonds.

25 **“Securities Depository”** means any one of the following registered securities
26 depositories which has been designated by the City: (i) DTC; (ii) Midwest Securities

1 Trust Company, Chicago, Illinois; (iii) Philadelphia Depository Trust Company,
2 Philadelphia, Pennsylvania; or (iv) such other securities depositories as the City may
3 designate in a certificate of the City delivered to the Bond Registrar.

4 **“State”** means the State of Washington.

5 **“State Auditor”** means the office of the Auditor of the State or such other
6 department or office of the State authorized and directed by State law to make audits.

7 **“Term Bond Maturity Year”** means any calendar year in which Term Bonds are
8 scheduled to mature.

9 **“Term Bonds”** means those Parity Bonds designated as such in the applicable
10 Parity Bond Authorizing Ordinance.

11 **“ULID”** means a utility local improvement district.

12 **“ULID Assessments”** means all assessments levied and collected in a ULID of
13 the City created for the acquisition or construction of additions to and betterments and
14 extensions of the Municipal Water System if (and only if) those assessments are pledged
15 to be paid into the Bond Account, not including any prepaid assessments paid into a
16 construction fund or account. ULID Assessments shall include installments thereof and
17 any interest or penalties thereon.

18 **“Undertaking”** means the City’s undertaking in the Bond Resolution to provide
19 certain disclosure as provided by Section 28.

20 **“Variable Interest Rate”** means any variable interest rate or rates to be borne by
21 any Parity Bonds. The method of computing such a variable interest rate shall be as
22 specified in the applicable Parity Bond Authorizing Ordinance (including a Bond
23 Resolution), which ordinance or resolution also shall specify either (1) the particular
24 period or periods of time or manner of determining such period or periods of time for
25 which each value of such variable interest rate shall remain in effect or (2) the time or
26 times upon which any change in such variable interest rate shall become effective. A

1 Variable Interest Rate may, without limitation, be based on the interest rate on certain
2 bonds or may be based on interest rate, currency, commodity or other indexes.

3 **“Variable Interest Rate Bonds”** means, for any period of time, any Parity Bonds
4 that bear a Variable Interest Rate during that period, except that Parity Bonds shall not be
5 treated as Variable Interest Rate Bonds if the net economic effect of interest rates on
6 particular Parity Bonds of an issue and interest rates on other Parity Bonds of the same
7 issue, as set forth in the applicable Parity Bond Authorizing Ordinance, or the net
8 economic effect of a Payment Agreement with respect to particular Parity Bonds, in
9 either case is to produce obligations that bear interest at a fixed interest rate; and Parity
10 Bonds with respect to which a Payment Agreement is in force shall be treated as Variable
11 Interest Rate Bonds if the net economic effect of the Payment Agreement is to produce
12 obligations that bear interest at a Variable Interest Rate.

13 **“Water Fund”** means the fund of that name into which is paid the Gross
14 Revenue of the Municipal Water System.

15 **“Water System Plan”** means the long range water system plan known as the
16 Updated Seattle Comprehensive Regional Water Plan adopted by the City in
17 Ordinance 116869, together with the 2001 Water System Plan Update adopted by the
18 City in Ordinance 120633, as that Water System Plan may be amended, updated,
19 supplemented or replaced from time to time.

20 **Section 2. Adoption of Plan of Additions.** The CIP and the Water System Plan
21 constitute a system or plan of additions to or betterments or extensions of the Municipal
22 Water System (the “Plan of Additions” and each element thereof an “Addition”). To the
23 extent not previously specified, adopted and ordered to be carried out by the City by
24 ordinance, the City specifies, adopts and orders to be carried out the Plan of Additions as
25 generally provided for in the Water System Plan and the CIP. The estimated cost of the
26 Plan of Additions, as near as may be determined, is declared to be Five Hundred Ninety-

1 Four Million Eight Hundred Seventy-Five Thousand Dollars (\$594,875,000), of which
2 One Hundred Seven Million Six Hundred Thousand Dollars (\$107,600,000) is expected
3 to be financed from the proceeds of the Bonds.

4 The Plan of Additions shall include any amendments, updates, supplements or
5 replacements to the CIP or the Water System Plan, all of which automatically shall
6 constitute amendments to the Plan of Additions. The Plan of Additions also may be
7 modified, without amending the CIP or the Water System Plan, to include other
8 improvements if the City determines by ordinance that those amendments or other
9 improvements constitute a system or plan of additions to or betterments or extensions of
10 the Municipal Water System.

11 The Plan of Additions includes the purchase and installation of all materials,
12 supplies, appliances, equipment (including but not limited to data processing hardware
13 and software and conservation equipment) and facilities, the acquisition of all permits,
14 franchises, property and property rights, other capital assets and all engineering,
15 consulting and other professional services and studies (whether performed by the City or
16 by other public or private entities) necessary or convenient to carry out the Plan of
17 Additions.

18 **Section 3. Authorization and Description of Bonds.** For the purpose of
19 providing all or a part of the money required to (1) pay part of the cost of carrying out
20 the Plan of Additions; (2) provide for a reserve for the Bonds; (3) refund all or a portion
21 of the Refundable Bonds; and (4) pay the costs of issuing and selling the Bonds, the City
22 shall issue and sell the Bonds in the aggregate principal amount of not to exceed Two
23 Hundred Ninety-Two Million Five Hundred Thousand Dollars (\$292,500,000). The
24 Bonds may be issued in one or more series, and such series may or may not include
25 Bonds to carry out the Refunding Plan, as determined in the Bond Resolution based upon
26 market conditions. The refunding portion, if any, need not be a separate series and may

1 be combined with other Parity Bonds authorized separately. The Bonds shall be called
2 “The City of Seattle Water System and Refunding Revenue Bonds, 2003”; may have
3 such different or further designation or designations as determined by the Bond
4 Resolution or the Director of Finance; shall be dated and shall mature on such dates
5 specified in the Bond Resolution; shall be dated as specified in the Bond Resolution;
6 shall be in the denomination of Five Thousand Dollars (\$5,000) or any integral multiple
7 thereof within a single maturity or such other denomination within a maturity provided
8 by the Bond Resolution; shall be numbered separately, in the manner and with any
9 additional designation as the Bond Registrar deems necessary for the purpose of
10 identification; shall bear interest at the rate or rates (computed on the basis of a 360-day
11 year of twelve 30-day months) as shall be specified and approved by the Bond
12 Resolution, except that the net interest cost shall not exceed a weighted average of eight
13 percent (8.0%) per annum, payable semiannually on such dates as are specified by the
14 Bond Resolution. The Bonds shall mature on the dates and be subject to optional or
15 mandatory redemption, open market purchase or defeasance on the terms and at the times
16 specified in the Bond Resolution, except that the final maturity of the Bonds shall not be
17 later than December 31, 2033. The Director of Finance may designate Term Bonds with
18 mandatory redemption amounts, all to be provided by the Bond Resolution. The Director
19 of Finance also may specify in Bond closing documents the respective amounts of each
20 maturity of the Bonds allocated to paying the costs of carrying out the Plan of Additions.

21 **Section 4. Bond Resolution.** The City Council may adopt the Bond Resolution
22 and in that resolution may provide for the matters described in this ordinance and such
23 other matters that the City Council deems necessary and appropriate to carry out the
24 purposes of this ordinance.

25 The Bond Resolution may provide for Bond Insurance or Reserve Insurance, and
26 conditions or covenants relating thereto, including additional terms, conditions and

1 covenants relating to the Bonds that are required by the Bond Insurer and are consistent
2 with the provisions of this ordinance, including but not limited to restrictions on
3 investments and requirements of notice to and consent of the Bond Insurer.

4 The Bond Resolution may approve and authorize the execution and delivery on
5 behalf of the City of any agreements consistent with the provisions of this ordinance for
6 which the City's approval is necessary or to which the City is a party and that are related
7 or incidental to the initial issuance and sale of the Bonds, the establishment of the interest
8 rate or rates on the Bonds, redemption of the Bonds, provision of Bond Insurance,
9 payment agreements and similar agreements.

10 The City Council may determine and specify by the Bond Resolution the amount,
11 if any, from the proceeds of or accrued interest on the Bonds to be deposited into
12 specified funds, subfunds, accounts and subaccounts. In the absence of such a
13 determination and specification in the Bond Resolution, the Director of Finance may
14 make such determination and specification.

15 **Section 5. Registration and Transfer or Exchange of Bonds.** The Bonds shall
16 be issued only in registered form as to both principal and interest and recorded on the
17 Bond Register. The Bond Register shall contain the name and mailing address of the
18 Registered Owner of each Bond and the principal amount and number of each of the
19 Bonds held by each Registered Owner.

20 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any
21 authorized denomination of an equal aggregate principal amount and of the same series,
22 interest rate and maturity. Bonds may be transferred only if endorsed in the manner
23 provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall
24 be without cost to the Registered Owner or transferee. The Bond Registrar shall not be
25 obligated to exchange or transfer any Bond during the fifteen (15) days preceding any
26

1 principal or interest payment or redemption date (or other record date established by the
2 Bond Resolution).

3 The City appoints DTC as initial Securities Depository for the Bonds. For so
4 long as DTC is the Securities Depository for the Bonds, DTC or its nominee shall be
5 deemed to be the Registered Owner of the Bonds for all purposes hereunder, and all
6 references in this ordinance or the Bond Resolution to the Registered Owners of the
7 Bonds shall mean DTC or its nominee and shall not mean the owners of any beneficial
8 interests in the Bonds. Payments of principal of, premium, if any, and interest on all
9 outstanding Bonds registered in the name of the nominee of DTC, or its registered assign,
10 shall be made as provided in the Letter of Representations.

11 Bonds executed and delivered in fully immobilized form shall be executed and
12 delivered in the form of one fully-registered immobilized certificate for each series and
13 maturity of the Bonds representing the aggregate principal amount of the Bonds of that
14 series and maturity, which Bonds shall (except as provided below for the discontinuation
15 or substitution of Securities Depository) be registered in the name of the Securities
16 Depository or its nominee. For so long as DTC serves as Securities Depository for the
17 Bonds, the Bonds shall be registered in the name of Cede & Co., as nominee of DTC;
18 however, if DTC shall request that the Bonds be registered in the name of a different
19 nominee, the Bond Registrar shall exchange all or any portion of the Bonds for an equal
20 aggregate principal amount of Bonds registered in the name of such other nominee or
21 nominees of DTC. No person other than DTC or its nominee shall be entitled to receive
22 from the City or the Bond Registrar any Bond or any other evidence of ownership of the
23 Bonds, or any right to receive any payment in respect thereof, unless DTC or its nominee
24 shall transfer record ownership of all or any portion of the Bonds on the Bond Register,
25 in connection with discontinuing the book entry system as provided below or otherwise.
26

1 For so long as the Bonds are registered in the name of DTC or any nominee
2 thereof, all payments of the principal of, or premium, if any, or interest with respect to
3 the Bonds shall be made to DTC or its nominee in immediately available funds on the
4 dates provided for such payments under this ordinance and the Bond Resolution and at
5 such times and in the manner provided in the Letter of Representations. Each such
6 payment to DTC or its nominee shall be valid and effective to fully discharge all liability
7 of the City or the Bond Registrar with respect to the principal of, premium, if any, or
8 interest with respect to the Bonds to the extent of the sum or sums so paid. In the event
9 of the redemption of less than all of the Bonds of any series and maturity, the Bond
10 Registrar shall not require surrender by DTC or its nominee of the Bonds so redeemed,
11 and DTC or its nominee may retain such Bonds and make an appropriate notation thereon
12 as to the amount of such partial redemption. DTC shall deliver to the Bond Registrar,
13 upon request, a written confirmation of such partial redemption. The records maintained
14 by the Bond Registrar shall be conclusive as to the amount of the Bonds of such series
15 and maturity that have been redeemed.

16 All transfers of beneficial ownership interests in Bonds registered in the name of
17 DTC or its nominee shall be effected by the procedures of DTC's participants and/or
18 indirect participants for recording and transferring the ownership of beneficial interests in
19 bonds.

20 The City and the Bond Registrar may treat DTC (or its nominee) as the sole and
21 exclusive Registered Owner of the Bonds registered in its name for the purposes of
22 payment of the principal of, premium, if any, or interest with respect to those Bonds,
23 selecting Bonds or portions thereof to be redeemed, giving any notice permitted or
24 required to be given to Registered Owners under this ordinance or the Bond Resolution,
25 registering the transfer of Bonds, obtaining any consent or other action to be taken by
26 Registered Owners of Bonds and for all other purposes whatsoever; and the City and the

1 Bond Registrar shall not be affected by any notice to the contrary. The City and the
2 Bond Registrar shall not have any responsibility or obligation to any direct or indirect
3 DTC participant, any person claiming a beneficial ownership interest in the Bonds under
4 or through DTC or any such participant, or any other person which is not shown on the
5 Bond Register as being a Registered Owner of Bonds, with respect to: (i) the Bonds;
6 (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or
7 any such direct or indirect participant of any amount in respect of the principal of,
8 premium, if any, or interest with respect to the Bonds; (iv) any notice which is permitted
9 or required to be given to Registered Owners of Bonds under this ordinance or the Bond
10 Resolution; (v) the selection by DTC or any such direct or indirect participant of any
11 person to receive payment in the event of a partial redemption of the Bonds; or (vi) any
12 consent given or other action taken by DTC as Registered Owner of the Bonds.

13 For so long as the Bonds are registered in the name of DTC or any nominee
14 thereof, all notices required or permitted to be given to the Registered Owners of such
15 Bonds under this ordinance or the Bond Resolution shall be given to DTC as provided in
16 the Letter of Representations.

17 In connection with any notice or other communication to be provided to
18 Registered Owners pursuant to this ordinance or the Bond Resolution by the City or the
19 Bond Registrar with respect to any consent or other action to be taken by Registered
20 Owners of the Bonds, DTC shall consider the date of receipt of notice requesting such
21 consent or other action as the record date for such consent or other action; however, the
22 City or the Bond Registrar may establish a special record date for such consent or other
23 action and shall give DTC notice of such special record date not less than fifteen (15)
24 calendar days in advance of such special record date to the extent practical.
25
26

1 Any successor Bond Registrar, in its written acceptance of its duties under this
2 ordinance and the Bond Resolution, shall agree to take any actions necessary from time
3 to time to comply with the requirements of any applicable Letter of Representations.

4 The book-entry system for registration of the ownership of the Bonds delivered in
5 fully immobilized form may be discontinued at any time if: (i) after notice to the City
6 and the Bond Registrar, DTC determines to resign as Securities Depository for the
7 Bonds; or (ii) after notice to DTC and the Bond Registrar, the City determines that a
8 continuation of the system of book-entry transfers through DTC (or through a successor
9 Securities Depository) is not in the best interests of the City. In each of such events
10 (unless, in the case described in clause (i) above, the City appoints a successor Securities
11 Depository), the Bonds shall be delivered in registered certificate form to such persons,
12 and in such maturities and principal amounts, as may be designated by DTC, but without
13 any liability on the part of the City or the Bond Registrar for the accuracy of such
14 designation. Whenever DTC requests the City and the Bond Registrar to do so, or
15 whenever the City requests DTC and the Bond Registrar to do so after the determination
16 by the City to replace DTC with a successor Securities Depository, the City and the Bond
17 Registrar shall cooperate with DTC in taking appropriate action after reasonable notice to
18 arrange for another Securities Depository to maintain custody of certificates evidencing
19 the Bonds.

20 **Section 6. Mutilated, Lost, Stolen and Destroyed Bonds.** In case any Bonds
21 issued hereunder shall become mutilated or be destroyed, stolen or lost, the City may, if
22 not then prohibited or otherwise required by law, cause to be executed and delivered a
23 new Bond of like amount, interest rate, maturity date, series and tenor in exchange and
24 substitution for and upon cancellation of such mutilated Bonds, or in lieu of and in
25 substitution for such destroyed, stolen or lost Bonds, upon payment by the Registered
26 Owner thereof of the reasonable expenses and charges of the City and the Bond Registrar

1 in connection therewith, and in the case of a Bond destroyed, stolen or lost, the filing
2 with the Bond Registrar of evidence satisfactory to it that such Bond was destroyed,
3 stolen or lost, and of the ownership thereof, and furnishing the City and the Bond
4 Registrar with indemnity satisfactory to each of them. If the mutilated, destroyed, stolen
5 or lost Bond already has matured or been called for redemption in accordance with its
6 terms it shall not be necessary to issue a new Bond prior to payment. If the provisions of
7 State law at any time differ from the provisions of this Section 6 with respect to the
8 requirements or procedures for replacing or otherwise handling mutilated, lost, stolen or
9 destroyed Bonds, then the provisions of State law shall prevail.

10 **Section 7. Payment of Bond Principal and Interest.** Principal of, premium, if
11 any, and interest on the Bonds shall be payable in lawful money of the United States of
12 America. Interest on the Bonds shall be paid by checks or drafts mailed by the Bond
13 Registrar on the interest payment date to the Registered Owners at the addresses
14 appearing on the Bond Register on the fifteenth (15th) day of the month preceding the
15 interest payment date (or other record date established by the Bond Resolution) (the
16 "Record Date") or, at the request of a Registered Owner of One Million Dollars
17 (\$1,000,000) or more in aggregate principal amount of Bonds, by wire transfer to an
18 account in the United States designated in writing by such Registered Owner prior to the
19 Record Date. Principal of and premium, if any, on the Bonds shall be payable upon
20 presentation and surrender of the Bonds by the Registered Owners at either of the
21 principal corporate trust office or offices of the Bond Registrar at the option of the
22 Registered Owners. Notwithstanding the foregoing, payment of any Bonds registered in
23 the name of DTC or its nominee shall be made in accordance with the Letter of
24 Representations.

25 The Bonds shall be payable solely out of the Bond Account and shall not be
26 general obligations of the City.

Section 8. Redemption and Open Market Purchase of Bonds.

(a) **Optional Redemption.** All or some of the Bonds may be subject to redemption at the option of the City at the times and on the terms set forth in the Bond Resolution.

(b) **Mandatory Redemption.** The City shall redeem any Term Bonds, if not redeemed under the optional redemption provisions set forth in the Bond Resolution or purchased in the open market under the provisions set forth below, by lot (or in such other manner as the Bond Registrar shall determine) at par plus accrued interest on the dates and in the years and principal amounts as set forth in the Bond Resolution.

If the City redeems Term Bonds under the optional redemption provisions set forth in the Bond Resolution or purchases Term Bonds in the open market as set forth below, the Term Bonds so redeemed or purchased (irrespective of their redemption or purchase price) shall be credited at the par amount thereof against the remaining mandatory redemption requirements in a manner to be determined by the Director of Finance or, if no such determination is made, on a pro-rata basis.

(c) **Partial Redemption.** Whenever less than all of the Bonds of a single maturity are to be redeemed, the Bond Registrar shall select the Bonds or portions thereof to be redeemed from the Bonds of that maturity by lot, or in such other manner as the Bond Registrar shall determine, except that, for so long as the Bonds are registered in the name of DTC or its nominee, DTC shall select the Bonds or portions thereof to be redeemed in accordance with the Letter of Representations. In no event shall any Bond be outstanding in a principal amount that is not an authorized denomination.

Portions of the principal amount of any Bond, in integral amounts of Five Thousand Dollars (\$5,000), may be redeemed, unless otherwise provided in the Bond Resolution. If less than all of the principal amount of any Bond is redeemed, upon

1 surrender of that Bond at either of the principal offices of the Bond Registrar, there shall
2 be issued to the Registered Owner, without charge therefor, a new Bond (or Bonds, at the
3 option of the Registered Owner) of the same series, maturity and interest rate in any of
4 the denominations authorized by the Bond Resolution in the aggregate total principal
5 amount remaining unredeemed.

6 (d) **Open Market Purchase.** The City reserves the right and option to
7 purchase any or all of the Bonds in the open market at any time at any price acceptable to
8 the City plus accrued interest to the date of purchase. The principal amount of Term
9 Bonds purchased pursuant to this Section 8 shall be credited at the par amount thereof
10 against the next mandatory redemption requirement, or as otherwise directed by the
11 Director of Finance.

12 (e) **Bonds to be Canceled.** All Bonds purchased or redeemed under
13 this Section 8 shall be canceled.

14 **Section 9. Notice of Redemption.** The City shall cause notice of any intended
15 redemption of Bonds to be given not less than thirty (30) nor more than sixty (60) days
16 prior to the date fixed for redemption by first-class mail, postage prepaid, to the
17 Registered Owner of any Bond to be redeemed at the address appearing on the Bond
18 Register at the time the Bond Registrar prepares the notice, and the requirements of this
19 sentence shall be deemed to have been fulfilled when notice has been mailed as so
20 provided, whether or not it is actually received by the Registered Owner of any Bond.
21 Interest on Bonds called for redemption shall cease to accrue on the date fixed for
22 redemption unless the Bond or Bonds called are not redeemed when presented pursuant
23 to the call. In addition, the redemption notice shall be mailed by the Bond Registrar
24 within the same period, postage prepaid, to each of the Rating Agencies at their offices in
25 New York, New York, to any Bond Insurer for the Bonds, and to such other persons and
26 with such additional information as the Director of Finance shall determine or as

1 specified in the Bond Resolution, but these additional mailings shall not be a condition
2 precedent to the redemption of Bonds.

3 **Section 10. Failure to Redeem Bonds.** If any Bond is not redeemed when
4 properly presented at its maturity or call date, the City shall be obligated to pay interest
5 on that Bond at the same rate provided in the Bond from and after its maturity or call date
6 until that Bond, principal of, premium, if any and interest, is paid in full or until sufficient
7 money for its payment in full is on deposit in the Bond Account and the Bond has been
8 called for payment by giving notice of that call to the Registered Owner of each of those
9 unpaid Bonds.

10 **Section 11. Form and Execution of Bonds.** The Bonds shall be typed,
11 photocopied, printed or lithographed on good bond paper in a form consistent with the
12 provisions of this ordinance, the Bond Resolution and State law, shall be signed by the
13 Mayor and Director of Finance, either or both of whose signatures may be manual or in
14 facsimile, and the seal of the City or a facsimile reproduction thereof shall be impressed
15 or printed thereon.

16 Only Bonds bearing a Certificate of Authentication in substantially the following
17 form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose
18 or entitled to the benefits of this ordinance:

19 **CERTIFICATE OF AUTHENTICATION**

20 This Bond is one of the fully registered The City of Seattle,
21 Washington, Water System and Refunding Revenue Bonds, 2003,
described in the Bond Ordinance.

22 WASHINGTON STATE FISCAL AGENCY
23 Bond Registrar

24 By: _____
25 Authorized Signer
26

1 The authorized signing of a Certificate of Authentication shall be conclusive evidence
2 that the Bond so authenticated has been duly executed, authenticated and delivered and is
3 entitled to the benefits of this ordinance.

4 If any officer whose facsimile signature appears on the Bonds ceases to be an
5 officer of the City authorized to sign bonds before the Bonds bearing his or her facsimile
6 signature are authenticated or delivered by the Bond Registrar or issued by the City,
7 those Bonds nevertheless may be authenticated, delivered and issued and, when
8 authenticated, issued and delivered, shall be as binding on the City as though that person
9 had continued to be an officer of the City authorized to sign bonds. Any Bond also may
10 be signed on behalf of the City by any person who, on the actual date of signing of the
11 Bond, is an officer of the City authorized to sign bonds, although he or she did not hold
12 the required office on the date of issuance of the Bonds.

13 **Section 12. Bond Registrar.** The Bond Registrar shall keep, or cause to be kept,
14 at its principal corporate trust office, sufficient books for the registration and transfer of
15 the Bonds which shall at all times be open to inspection by the City. The Bond Registrar
16 is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or
17 exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as
18 the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers
19 and duties under this ordinance and SMC Chapter 5.10 establishing a system of
20 registration for the City's bonds and obligations, as that chapter now exists or may be
21 amended.

22 The City reserves the right in its discretion to appoint special paying agents,
23 registrars or trustees in connection with the payment of some or all of the principal of or
24 interest on the Bonds. If a new Bond Registrar is appointed by the City, notice of the
25 name and address of the new Bond Registrar shall be mailed to the Registered Owners of
26 the Bonds. The notice may be mailed together with the next interest payment due on the

1 Bonds, but, to the extent practicable, shall be mailed not less than fifteen (15) days prior
2 to a maturity date of the principal or a mandatory redemption date of any Bond.

3 The Bond Registrar shall be responsible for its representations contained in the
4 Bond Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may
5 become the Registered Owner of Bonds with the same rights it would have if it were not
6 the Bond Registrar and, to the extent permitted by law, may act as depository for and
7 permit any of its officers or directors to act as members of, or in any other capacity with
8 respect to, any committee formed to protect the rights of the Registered Owners of the
9 Bonds.

10 **Section 13. Execution of Refunding Plan.**

11 (a) **Appointment of Refunding Trustee.** The Refunding Trustee
12 shall be designated by the Director of Finance and confirmed by the Bond Resolution.

13 (b) **Use of Bond Proceeds; Acquisition and Substitution of**
14 **Acquired Obligations.** If the Bonds of a series include Bonds to carry out the
15 Refunding Plan, sufficient proceeds of the sale of the Bonds shall be deposited
16 immediately upon the receipt thereof with the Refunding Trustee and used to pay the
17 amounts required to be paid by the Refunding Plan in order to discharge the obligations
18 of the City relating to the Refunded Bonds. The Refunding Plan shall be carried out, and
19 proceeds of the Bonds allocable to refunding purposes shall be applied in accordance
20 with this ordinance, the Refunded Bond Ordinance, the Bond Resolution and the laws of
21 the State. To the extent practicable, such obligations shall be discharged fully by the
22 Refunding Trustee's simultaneous purchase of the Acquired Obligations, bearing such
23 interest and maturing as to principal and interest in such amounts and at such times so as
24 to provide, together with a beginning cash balance, if necessary, for the payment of the
25 amount required to be paid by the Refunding Plan. The Acquired Obligations shall be
26 listed and more particularly described in a schedule attached to the Refunding Trust

1 Agreement, and shall be subject to substitution as set forth therein. Any surplus money
2 resulting from the sale, transfer, other disposition or redemption of the Acquired
3 Obligations and the substitutions therefor shall be released from the trust estate and
4 transferred to the Water Fund to be used for any lawful purpose.

5 (c) **Administration of Refunding Plan.** The Refunding Trustee is
6 authorized and directed to purchase the Acquired Obligations (or substitute obligations)
7 and to make the payments required to be made by the Refunding Plan from the Acquired
8 Obligations (or substitute obligations) and money deposited with the Refunding Trustee
9 pursuant to this ordinance. All Acquired Obligations (or substitute obligations) and the
10 money deposited with the Refunding Trustee and any income therefrom shall be held
11 irrevocably, invested and applied in accordance with the provisions of the Refunded
12 Bond Ordinance, this ordinance, the Bond Resolution, chapter 39.53 RCW and other
13 applicable statutes of the State of Washington and the Refunding Trust Agreement. All
14 necessary and proper fees, compensation and expenses of the Refunding Trustee and all
15 other costs incidental to the setting up of the escrow to accomplish the refunding of the
16 Refunded Bonds and costs related to the issuance and delivery of the Bonds, including
17 bond printing, verification fees, Bond Counsel's fees and other related expenses, shall be
18 paid out of the proceeds of the Bonds.

19 (d) **Authorization for Refunding Trust Agreement.** To carry out
20 the Refunding Plan provided for by this ordinance, the Director of Finance is authorized
21 and directed to execute and deliver to the Refunding Trustee, in connection with each
22 series of Bonds, a Refunding Trust Agreement in a form that is consistent with this
23 ordinance and approved by the Resolution and that assures that the escrow provided
24 therein and the Bonds are in compliance with the requirements of federal law governing
25 the exclusion of interest on the Bonds from gross income for federal income tax
26 purposes.

1 **Section 14. Call for Redemption of the Refunded Bonds.** As a part of the
2 Refunding Plan, the City calls the Refunded Bonds for redemption on the dates and at the
3 prices set forth in the Bond Resolution. Such call for redemption of the Refunded Bonds
4 shall be irrevocable after the delivery to the initial purchaser thereof of the applicable
5 series of Bonds. The dates on which the Refunded Bonds are called for redemption shall
6 be the earliest dates on which those bonds may be called for redemption.

7 The proper officials of the City are authorized and directed to give or cause to be
8 given such notices as required, at the times and in the manner required pursuant to the
9 respective Refunded Bond Ordinance in order to effect the redemption prior to maturity
10 of the Refunded Bonds.

11 **Section 15. City Finding with Respect to Refunding.** The Refunding Plan or
12 any portion thereof shall be carried out only if the City Council finds and determines by
13 the Bond Resolution that the issuance and sale of Bonds will effect savings to the City
14 and its ratepayers and/or otherwise will be in the best interest of the City and in the
15 public interest. In making such findings and determinations, the City Council shall give
16 consideration to the fixed maturities and scheduled redemptions of the Bonds, the costs
17 of issuance of the Bonds and the known earned income from the investment of the
18 proceeds of the issuance and sale of the Bonds and other money, if any, of the City used
19 in the Refunding Plan pending payment and redemption of the Refunded Bonds.

20 The Refunding Plan or any portion thereof shall be carried out only if the City
21 Council further finds and determines that the money to be deposited with the Refunding
22 Trustee for the Refunded Bonds in accordance with this ordinance and the Bond
23 Resolution will discharge and satisfy the obligations of the City with respect to the
24 Refunded Bonds under the respective Refunded Bond Ordinance, and the pledges,
25 charges, trusts, covenants and agreements of the City therein made or provided for as to
26 the Refunded Bonds, and that the Refunded Bonds shall no longer be deemed to be

1 outstanding under such ordinance immediately upon the deposit of such money with the
2 Refunding Trustee.

3 **Section 16. Bond Account.** Ordinance 116705 created the Water Revenue Bond
4 Account (the "Bond Account") in the Water Fund and further divided the Bond Account
5 into two subaccounts: the Principal and Interest Subaccount and the Reserve Subaccount.
6 So long as any Parity Bonds are outstanding, the City shall set aside and pay into the
7 Bond Account all ULID Assessments on their collection (except for ULID Assessments
8 deposited in a construction account) and, out of the Net Revenue, certain fixed amounts
9 without regard to any fixed proportion, namely:

10 (a) Into the Principal and Interest Subaccount (i) upon receipt
11 thereof, the accrued interest, if any, received by the City from the
12 purchaser of the Bonds, and (ii) on or before each interest or principal and
13 interest payment date of any Parity Bonds at least an amount which,
14 together with other money on deposit therein, will be sufficient to pay the
15 interest, or principal and interest, to become due and payable on the Parity
16 Bonds on that payment date, including any Parity Bonds subject to
17 mandatory redemption on that date, and net payments due on Parity
18 Payment Agreements; and

19 (b) Into the Reserve Subaccount, in approximately equal
20 annual payments, amounts necessary to fund the Reserve Requirement
21 within five years from the date of issuance of such Parity Bonds after
22 taking into account the capitalization of all or any part of the Reserve
23 Requirement. The City may provide all or any part of the Reserve
24 Requirement through Reserve Insurance, and the amount available to be
25 drawn upon under that Reserve Insurance shall be credited against the
26 Reserve Requirement, subject to the following:

The Reserve Insurance shall not be cancelable on less than three (3) years' notice. On receipt of a notice of cancellation of any Reserve Insurance or upon notice that the entity providing the Reserve Insurance no longer meets the requirements specified herein, the City shall substitute Reserve Insurance in the amount required to make up the deficiency created in the Reserve Subaccount or in the alternative shall create a special account in the Water Fund and deposit therein, on or before the twenty-fifth (25th) day of each of the thirty-six (36) succeeding calendar months (commencing with the twenty-fifth (25th) day of the calendar month next following the date of the notice) one thirty-sixth (1/36th) of the amount sufficient, together with other money and investments on deposit in the Reserve Subaccount, to equal the Reserve Requirement in effect as of the date the cancellation or disqualification of the entity becomes effective. The required amounts shall be deposited in that special account from

1 money in the Water Fund after making provision for payment of
2 Operation and Maintenance Expenses and for required payments into the
3 Bond Account. Amounts on deposit in that special account shall not be
4 available to pay debt service on Parity Bonds or for any other purpose of
5 the City, and shall be transferred to the Reserve Subaccount on the
6 effective date of any cancellation of a Reserve Insurance to make up all or
7 part of the deficiency caused thereby. Amounts in that special account or
8 in the Reserve Subaccount may be transferred back to the Water Fund and
9 used for any purpose if and when qualifying Reserve Insurance is
10 obtained.

11 Except for withdrawals therefrom and payments over time as authorized herein,
12 the Reserve Subaccount shall be maintained at the Reserve Requirement, as it is adjusted
13 from time to time, at all times so long as any Parity Bonds are outstanding. For the
14 purpose of determining the amount credited to the Reserve Subaccount, obligations in
15 which money in the Reserve Subaccount has been invested shall be valued at the greater
16 of cost or accreted value.

17 In the event that there shall be a deficiency in the Principal and Interest
18 Subaccount to meet maturing installments of either principal or interest or mandatory
19 redemption requirements, as the case may be, that deficiency shall be made up from the
20 Reserve Subaccount by the withdrawal of cash therefrom for that purpose. Any
21 deficiency created in the Reserve Subaccount by reason of any such withdrawal shall
22 within twelve (12) months be made up from ULID Assessments and Net Revenue
23 available after making necessary provisions for the required payments into the Principal
24 and Interest Subaccount.

25 The money in the Reserve Subaccount may be applied to the payment of the last
26 outstanding bonds payable out of the Bond Account, except that any money in the
Reserve Subaccount (including investment earnings) in excess of the Reserve
Requirement may be withdrawn and deposited in the Principal and Interest Subaccount
and spent for the purpose of retiring Parity Bonds or may be deposited in any other fund
or account and spent for any other lawful Municipal Water System purpose. When the
total amount in the Bond Account (including investment earnings) shall equal the total

1 amount of principal and interest for all Parity Bonds to the last maturity thereof, no
2 further payment need be made into the Bond Account.

3 The City may provide for the purchase, redemption or defeasance of any Parity
4 Bonds by the use of money on deposit in any subaccount in the Bond Account as long as
5 the money remaining in those subaccounts is sufficient to satisfy the required deposits in
6 those subaccounts for the remaining Parity Bonds.

7 All money in the Bond Account may be kept in cash or invested in legal
8 investments maturing, for investments in the Principal and Interest Subaccount, not later
9 than the dates when the funds are required for the payment of principal of or interest on
10 the Parity Bonds and, for investments in the Reserve Subaccount, maturing (or subject to
11 redemption, or repurchase and redemption, at the option of the City) on a date not later
12 than fifteen (15) years from the date of investment.

13 Earnings from investments in the Principal and Interest Subaccount shall be
14 deposited in that account. Earnings from investments in the Reserve Subaccount shall be
15 deposited in that account. Notwithstanding the provisions for the deposit of earnings,
16 any earnings that are subject to federal arbitrage rebate requirements may be withdrawn
17 from the Bond Account for deposit into a separate fund or account created for the
18 purpose of compliance with those rebate requirements.

19 The City may create sinking fund accounts or other accounts in the Bond Account
20 for the payment or securing the payment of Parity Bonds as long as the maintenance of
21 such accounts does not conflict with the rights of the owners of such Parity Bonds.

22 **Section 17. Construction Account.** There has been created in the Water Fund
23 an account known as the Water System Construction Account, within which account is
24 created a subaccount to be known as the Water System Construction Subaccount, 2003
25 (the "Construction Account"). The principal proceeds of the sale of the Bonds remaining
26 after (1) the deposit of accrued interest on the Bonds, if any, into the Principal and

1 Interest Subaccount, (2) the deposit of any proceeds as determined by the Bond
2 Resolution into the Reserve Subaccount, and (3) the deposit of any proceeds with the
3 Refunding Trustee pursuant to Section 13(b) hereof and the Bond Resolution, shall be
4 deposited into the Construction Account to be used for the purpose of paying part of the
5 costs of carrying out the Plan of Additions and to pay for the costs of issuance of the
6 Bonds. Until needed to pay such costs, the City may invest principal proceeds and
7 interest thereon temporarily in any legal investment, and the investment earnings may, as
8 determined by the Director of Finance, be retained in the Construction Account and be
9 spent for the purposes of that fund or deposited in the Bond Account.

10 **Section 18. Rate Stabilization Account.** The Rate Stabilization Account has
11 been created in the Water Fund. The City may at any time, as determined by the City and
12 as consistent with Section 22 of this ordinance, deposit in the Rate Stabilization Account
13 Gross Revenue and any other money received by the Municipal Water System and
14 available to be used therefor. The City may withdraw any or all of the money from the
15 Rate Stabilization Account for inclusion in the Adjusted Gross Revenue for any fiscal
16 year of the City. Such deposits or withdrawals may be made up to and including the date
17 ninety (90) days after the end of the fiscal year for which the deposit or withdrawal will
18 be included as Adjusted Gross Revenue.

19 No deposit of Gross Revenue shall be made into the Rate Stabilization Account to
20 the extent that such deposit would prevent the City from meeting the Coverage
21 Requirement in the relevant fiscal year.

22 **Section 19. Finding as to Sufficiency of Gross Revenue.** A series of Bonds
23 will be issued only if the City Council finds and determines by the Bond Resolution
24 (i) that the Gross Revenue and benefits to be derived from the operation and maintenance
25 of the Municipal Water System of the City at the rates to be charged from time to time
26 for water and other services and commodities from the Municipal Water System

1 consistent with Section 21(b) hereof, will be sufficient to meet all Operation and
2 Maintenance Expenses and to permit the setting aside into the Bond Account out of the
3 Gross Revenue of amounts sufficient to pay the principal of and interest on the Bonds
4 and any mandatory redemption requirements when due, and (ii) that in fixing the
5 amounts to be paid into the Bond Account the City has exercised due regard for
6 Operation and Maintenance Expenses, and has not bound and obligated itself to set aside
7 and pay into the Bond Account a greater amount or proportion of the Gross Revenue than
8 in the judgment of the City will be available over and above the Operation and
9 Maintenance Expenses.

10 **Section 20. Pledge of Net Revenue and Lien Position.** The Net Revenue of the
11 Municipal Water System and all money and investments held in the Bond Account, the
12 Rate Stabilization Account and the Construction Account (except money and investments
13 held in a separate fund or account created for the purpose of compliance with rebate
14 requirements under the Code), is pledged to the payment of the Parity Bonds and to make
15 payments into the Reserve Subaccount required by this ordinance, the Bond Resolution
16 and Parity Bond Authorizing Ordinances, and this pledge shall constitute a lien and
17 charge upon the Net Revenue prior and superior to any other charges whatsoever.

18 **Section 21. Parity Bond Covenants.** The City covenants and agrees with the
19 owner of each Bond at any time outstanding, as follows:

20 (a) **Operation and Maintenance.** It will at all times maintain,
21 preserve and keep the properties of the Municipal Water System in good repair, working
22 order and condition, will make all necessary and proper additions, betterments, renewals
23 and repairs thereto, and improvements, replacements and extensions thereof so that at all
24 times the business carried on in connection therewith will be properly and
25 advantageously conducted, and will at all times operate or cause to be operated the
26

properties of the Municipal Water System and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) **Establishment and Collection of Rates and Charges.** It will establish, maintain and collect rates and charges for services and facilities provided by the Municipal Water System which will be fair and equitable, and will adjust those rates and charges from time to time so that:

(1) The Gross Revenue will be sufficient to (i) pay all Operation and Maintenance Expenses, (ii) pay when due all amounts that the City is obligated to pay into the Bond Account and the subaccounts therein, and (iii) pay all taxes, assessments or other governmental charges lawfully imposed on the Municipal Water System or the revenue therefrom or payments in lieu thereof and any and all other amounts which the City may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and

(2) The Adjusted Net Revenue of the Municipal Water System in each fiscal year will be at least equal to the Coverage Requirement; and

(3) Except to aid the poor or infirm and for fire-fighting purposes, it will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the Municipal Water System free of charge to any person, firm or corporation, public or private.

The failure of the City to comply with subparagraphs (1) and (2) of this paragraph (b) shall not be an Event of Default if the City promptly retains an Independent Consulting Engineer to recommend to the City Council adjustments in the rates of the Municipal Water System necessary to meet the requirements of those subparagraphs and if the City Council adopts the recommended modifications within one hundred eighty (180) days of the date the failure became known to the City Council.

1 (c) **Sale, Transfer or Disposition of the Municipal Water System.**

2 It will sell, transfer or otherwise dispose of any of the works, plant, properties, facilities
3 or other part of the Municipal Water System or any real or personal property comprising
4 a part of the Municipal Water System only upon approval by ordinance and only
5 consistent with one or more of the following:

6 (1) The City in its discretion may carry out such a sale, transfer
7 or disposition (each, as used in this subparagraph, a “transfer”) if the facilities or property
8 transferred are not material to the operation of the Municipal Water System, or shall have
9 become unserviceable, inadequate, obsolete or unfit to be used in the operation of the
10 Municipal Water System or are no longer necessary, material or useful to the operation of
11 the Municipal Water System; or

12 (2) The City in its discretion may carry out such a transfer if
13 the aggregate depreciated cost value of the facilities or property being transferred under
14 this subparagraph (2) in any fiscal year comprises no more than three percent (3%) of the
15 total assets of the Municipal Water System; or

16 (3) The City in its discretion may carry out such a transfer if
17 the City receives from the transferee an amount equal to the fair market value of the
18 portion of the Municipal Water System transferred. As used in this subparagraph, “fair
19 market value” means the most probable price that a property should bring in a
20 competitive and open market under all conditions requisite to a fair sale, the willing
21 buyer and willing seller each acting prudently and knowledgeably and assuming that the
22 price is not affected by coercion or undue stimulus. The proceeds of the transfer shall be
23 used (i) to promptly redeem, or irrevocably set aside for the redemption of, Parity Bonds,
24 and/or (ii) to provide for part of the cost of additions to and betterments and extensions of
25 the Municipal Water System. Before any such transfer under this subparagraph (3), the
26 City must obtain a certificate of an Independent Consulting Engineer to the effect that in

1 his or her professional opinion, upon such transfer and the use of proceeds of the transfer
2 as proposed by the City, the remaining Municipal Water System will retain its
3 operational integrity and the Adjusted Net Revenue of the Municipal Water System will
4 be at least equal to the Coverage Requirement during the five fiscal years following the
5 fiscal year in which the transfer is to occur, taking into account, (w) the reduction in
6 revenue resulting from the transfer; (x) the use of any proceeds of the transfer for the
7 redemption of Parity Bonds, (y) the Independent Consulting Engineer's estimate of
8 revenue from customers anticipated to be served by any additions to and betterments and
9 extensions of the Municipal Water System financed in part by the proposed portion of the
10 proceeds of the transfer, and (z) any other adjustment permitted in the preparation of a
11 certificate under Section 23(f)(2) of this ordinance. Before such a transfer, the City also
12 must obtain confirmation from each of the Rating Agencies to the effect that the rating
13 then in effect will not be reduced or withdrawn upon such transfer.

14 The amount required to be paid to the City may be reduced by any "equity
15 credits" or similar amounts based on prior capital contributions or other payments to the
16 City which, under any contract between the City and the transferee, are allowed as a
17 setoff against the transfer price that would otherwise be payable to the City.

18 (d) **Liens Upon the Municipal Water System.** Except as otherwise
19 provided in this ordinance, it will not at any time create or permit to accrue or to exist
20 any lien or other encumbrance or indebtedness upon the Gross Revenue or any part
21 thereof, prior or superior to the lien thereon for the payment of the Parity Bonds, and will
22 pay and discharge, or cause to be paid and discharged, any and all lawful claims for
23 labor, materials or supplies which, if unpaid, might become a lien or charge upon the
24 Gross Revenue or any part thereof, prior or superior to, or on a parity with, the lien of the
25 Parity Bonds, or which might impair the security of the Parity Bonds.

1 (e) **Books and Accounts.** It will keep proper books, records and
2 accounts with respect to the operations, income and expenditures of the Municipal Water
3 System in accordance with generally accepted accounting practices relating to the
4 municipal utilities and any applicable rules and regulations prescribed by the State, and
5 will cause those books, records and accounts to be audited on an annual basis by the State
6 Auditor (or, if such audit is not made by the State Auditor within two hundred seventy
7 (270) days after the close of any fiscal year of the City, by a certified public accountant
8 selected by the City). It will prepare annual financial and operating statements as soon as
9 practicable after the close of each fiscal year showing in reasonable detail the financial
10 condition of the Municipal Water System as of the close of the previous year, and the
11 income and expenses for such year, including the amounts paid into the Bond Account
12 and into any and all special funds or accounts created pursuant to the provisions of this
13 ordinance, the status of all funds and accounts as of the end of such year, and the amounts
14 expended for maintenance, renewals, replacements and capital additions to the Municipal
15 Water System. Such statements shall be sent to the owner of any Parity Bonds upon
16 written request therefor being made to the City. The City may charge a reasonable cost
17 for providing such financial statements.

18 (f) **Collection of Delinquent Accounts.** On at least an annual basis,
19 it will determine all accounts that are delinquent and will take such actions as the City
20 determines are reasonably necessary to enforce payment of those delinquent accounts.

21 (g) **Maintenance of Insurance.** It at all times will carry fire and
22 extended coverage, public liability and property damage and such other forms of
23 insurance with responsible insurers and with policies payable to the City on such of the
24 buildings, equipment, works, plants, facilities and properties of the Municipal Water
25 System as are ordinarily carried by municipal or privately owned utilities engaged in the
26 operation of like systems, and against such claims for damages as are ordinarily carried

1 by municipal or privately owned utilities engaged in the operation of like systems, or it
2 will self-insure or will participate in an insurance pool or pools with reserves adequate, in
3 the reasonable judgment of the City, to protect the Municipal Water System and the
4 owners of the Parity Bonds against loss.

5 (h) **Condemnation Awards and Insurance Proceeds.** If the City
6 receives any condemnation awards or proceeds of an insurance policy in connection with
7 any loss of or damage to any property of the Municipal Water System, it shall apply the
8 condemnation award or insurance proceeds, in the City's sole discretion, either (i) to the
9 cost of replacing or repairing the lost or damaged properties, (ii) to the payment, purchase
10 or redemption of Parity Bonds, or (iii) to the cost of improvements to the Municipal
11 Water System.

12 **Section 22. Flow of Funds.** All ULID Assessments shall be paid into the Bond
13 Account as provided by this ordinance. The Gross Revenue of the Municipal Water
14 System shall be used for the following purposes only and shall be applied in the
15 following order of priority:

16 (a) To pay the Operation and Maintenance Expenses;

17 (b) To pay interest on Parity Bonds and net payments on Parity
18 Payment Agreements when due;

19 (c) To pay the principal of Parity Bonds as it comes due at
20 maturity or as the principal is required to be paid pursuant to mandatory
21 redemption requirements applicable to Term Bonds, and to make
22 payments due under any reimbursement agreement with a Bond Insurer
23 which agreement requires those payments to be treated on a parity of lien
24 with the Parity Bonds;

25 (d) To make all payments required to be made into the Reserve
26 Subaccount, all payments required to be made under any agreement
relating to the provision of Reserve Insurance, and payments due under
any reimbursement agreement with a Bond Insurer which agreement
requires those payments to be treated on a parity of lien with the payments
required to be made into the Reserve Subaccount;

(e) To make all payments required to be made into any
revenue bond, note, warrant or other revenue obligation redemption fund,

1 debt service account or reserve account created to pay or secure the
2 payment of the principal of and interest on any revenue bonds, notes,
3 warrants or other obligations of the City having a lien upon the revenue of
the Municipal Water System junior and inferior to the lien thereon for the
payment of the principal of and interest on the Parity Bonds; and

4 (f) To retire by redemption or purchase in the open market any
5 outstanding revenue bonds or other revenue obligations of the Municipal
6 Water System, to make necessary additional betterments, improvements
and repairs to or extensions and replacements of the Municipal Water
System, to make deposits into the Rate Stabilization Account, or for any
other lawful Municipal Water System purposes.

7
8 The City may transfer any money from any funds or accounts of the Municipal
9 Water System legally available therefor, except bond redemption funds, refunding
10 escrow funds or defeasance funds, to meet the required payments to be made into the
11 Bond Account.

12 **Section 23. Provisions for Future Parity Bonds.** The City reserves the right to
13 issue Future Parity Bonds and to enter into Parity Payment Agreements for purposes of
14 the Municipal Water System or to refund a portion of the Parity Bonds if the following
15 conditions are met and complied with at the time of the issuance of those Future Parity
16 Bonds or entering into the Parity Payment Agreement:

17 (a) There shall be no deficiency in the Bond Account and no
18 Event of Default with respect to any Parity Bonds shall have occurred and
be continuing.

19 (b) The Parity Bond Authorizing Ordinance shall provide that
20 all assessments and interest thereon that may be levied in any ULID
21 created for the purpose of paying, in whole or in part, the principal of and
22 interest on those Future Parity Bonds, shall be paid directly into the Bond
Account, except for any prepaid assessments permitted by law to be paid
into a construction fund or account.

23 (c) The Parity Bond Authorizing Ordinance shall provide for
24 the payment of the principal thereof and interest thereon out of the Bond
Account.

25 (d) The Parity Bond Authorizing Ordinance shall provide for
26 the payment of amounts into the Bond Account to meet mandatory
redemption requirements applicable to any Term Bonds to be issued and
for regular payments to be made for the payment of the principal of such

1 Term Bonds on or before their maturity, or, as an alternative, the
2 mandatory redemption of those Term Bonds prior to their maturity date
from money in the Principal and Interest Subaccount.

3 (e) The Parity Bond Authorizing Ordinance shall provide for
4 the deposit into the Reserve Subaccount of (i) an amount, if any, necessary
5 to fund the Reserve Requirement upon the issuance of those Future Parity
6 Bonds from Future Parity Bond proceeds or other money legally available,
7 or (ii) Reserve Insurance or an amount plus Reserve Insurance necessary
to fund the Reserve Requirement upon the issuance of those Future Parity
Bonds, or (iii) amounts necessary to fund the Reserve Requirement from
ULID Assessments and Adjusted Net Revenue within five years from the
date of issuance of those Future Parity Bonds, in five approximately equal
annual payments.

8 (f) There shall be on file with the City either:

9 (1) a certificate of the Director of Finance
10 demonstrating that during any twelve consecutive calendar months
11 out of the immediately preceding twenty-four (24) calendar
12 months Adjusted Net Revenue was at least equal to the Coverage
13 Requirement for all Parity Bonds plus the Future Parity Bonds
proposed to be issued (and assuming that the debt service of the
proposed Future Parity Bonds for that twelve-month period was
the Average Annual Debt Service for those proposed bonds); or

14 (2) a certificate of both the Director of Finance and the
15 Director of Seattle Public Utilities (who has succeeded to
16 substantially all of the responsibilities of the Superintendent of the
17 Municipal Water System), or any officer who succeeds to
18 substantially all of the responsibilities of either office, that in their
19 opinion the Adjusted Net Revenue for the five fiscal years next
20 following the earlier of (A) the end of the period during which
21 interest on those Future Parity Bonds is to be capitalized or, if no
interest is capitalized, the fiscal year in which the Future Parity
Bonds are issued, or (B) the date on which substantially all new
facilities financed with those Future Parity Bonds are expected to
commence operations, such Adjusted Net Revenue further adjusted
as provided in paragraphs (i) through (iv) below, will be at least
equal to the Coverage Requirement. That certificate may take into
account the following adjustments:

22 (i) Any changes in rates in effect and being
23 charged, or rates expected to be charged in accordance with
a program of specific rates, rate levels or increases in
overall rate revenue approved by ordinance or resolution;

24 (ii) Net revenue from customers of the
25 Municipal Water System who have become customers
26 during the twelve (12) consecutive month period or
thereafter, and their estimate of net revenue from any
customers to be connected to the Municipal Water System

1 who have paid the required connection charges, adjusted to
2 reflect one year's net revenue from those customers;

3 (iii) Their estimate of net revenue from
4 customers anticipated to be served by facilities or
5 improvements financed in substantial part by those Future
6 Parity Bonds (or additional Parity Bonds expected to be
7 issued during the five-year period); and

8 (iv) Net revenue from any person, firm,
9 corporation or municipal corporation under any executed
10 contract for water or other utility service, which revenue
11 was not included in the historical Net Revenue of the
12 Municipal Water System.

13 If the Future Parity Bonds proposed to be issued are for the sole
14 purpose of refunding Parity Bonds, no such coverage certification shall be
15 required if the Adjusted Annual Debt Service on the Parity Bonds after the
16 issuance of the Future Parity Bonds is not, for any year in which the Parity
17 Bonds being refunded were outstanding, more than Five Thousand Dollars
18 (\$5,000) over the Adjusted Annual Debt Service on the Parity Bonds prior
19 to the issuance of those Future Parity Bonds.

20 Nothing contained herein shall prevent the City from issuing Future Parity Bonds
21 to refund maturing Parity Bonds, money for the payment of which is not otherwise
22 available, or revenue bonds that are a charge or lien upon the Gross Revenue subordinate
23 to the charge or lien of the Parity Bonds, or from pledging the payment of ULID
24 assessments into a bond redemption fund created for the payment of the principal of and
25 interest on those junior lien bonds as long as such ULID assessments are levied for
26 improvements constructed from the proceeds of those junior lien bonds.

Section 24. Reimbursement Obligations. If the City elects to meet the Reserve
Requirement or any portion thereof through the use of Reserve Insurance or elects to
secure any issue of Parity Bonds through the use of Bond Insurance, the City may
contract with the entity providing such Reserve Insurance or Bond Insurance to the effect
that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien
with the Parity Bonds.

1 If provided by the Bond Resolution, if the principal of, interest or mandatory
2 redemption requirements due on the Bonds is paid by a Bond Insurer pursuant to a Bond
3 Insurance policy, the Bonds shall not be considered paid by the City, and the covenants,
4 agreements and other obligations of the City to the Registered Owners shall continue to
5 exist and the Bond Insurer shall be subrogated to the rights of the Registered Owners.

6 **Section 25. Separate Utility Systems.** The City may create, acquire, construct,
7 finance, own and operate one or more additional systems for water supply, transmission
8 or other commodity or service. The revenue of that separate utility system shall not be
9 included in the Gross Revenue of the Municipal Water System and may be pledged to the
10 payment of revenue obligations issued to purchase, construct, condemn or otherwise
11 acquire or expand the separate utility system. Neither the Gross Revenue nor the Net
12 Revenue of the Municipal Water System shall be pledged by the City to the payment of
13 any obligations of a separate utility system except (1) as a Contract Resource Obligation
14 upon compliance with Section 26 hereof and/or (2) with respect to the Net Revenue, on a
15 basis subordinate to the lien of the Parity Bonds on that Net Revenue.

16 **Section 26. Contract Resource Obligations.** The City may at any time enter
17 into one or more Contract Resource Obligations for the acquisition, from facilities to be
18 constructed, of water supply, transmission or other commodity or service relating to the
19 Municipal Water System. The City may determine that, and may agree under a Contract
20 Resource Obligation to provide that, all payments under that Contract Resource
21 Obligation (including payments prior to the time that water supply or transmission or
22 other commodity or service is being provided, or during a suspension or after termination
23 of supply or service) shall be Operation and Maintenance Expenses if the following
24 requirements are met at the time such a Contract Resource Obligation is entered into:

- 25 (a) No Event of Default has occurred and is continuing.
- 26

(b) There shall be on file a certificate of an Independent Consulting Engineer stating that (i) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the supply or transmission rendered; (ii) the source of any new supply, and any facilities to be constructed to provide the supply or transmission, are sound from a water or other commodity supply or transmission planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide supply or transmission no later than a date set forth in the Independent Consulting Engineer's certification; and (iii) the Adjusted Net Revenue (further adjusted by the Independent Consulting Engineer's estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five fiscal years following the year in which the Contract Resource Obligation is incurred, as such Adjusted Net Revenue is estimated by the Independent Consulting Engineer in accordance with the provisions of and adjustments permitted in Section 23(f)(2) of this ordinance, will be at least equal to the Coverage Requirement.

Payments required to be made under Contract Resource Obligations shall not be subject to acceleration.

Nothing in this Section 26 shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from existing facilities and from treating those payments as Operation and Maintenance Expenses. Nothing in this Section 26 shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting a lien and charge on Net Revenue subordinate to that of Parity Bonds.

Section 27. Preservation of Tax Exemption for Interest on Bonds. The City covenants that it will take all actions consistent with the terms of the Bonds, this ordinance and the Bond Resolution reasonably within its power and necessary to prevent interest on the Bonds from being included in gross income for federal income tax purposes and it will neither take any action nor make or permit any use of the proceeds of the Bonds or other funds of the City treated as proceeds of the Bonds at any time during

1 the term of the Bonds which will cause interest on the Bonds to be included in gross
2 income for federal income tax purposes.

3 The City has not been notified of any listing or proposed listing by the Internal
4 Revenue Service to the effect that the City is a bond issuer whose arbitrage certifications
5 may not be relied upon.

6 **Section 28. Continuing Disclosure.** The City shall undertake to provide for the
7 benefit of holders of the Bonds disclosure of certain financial information and operating
8 data of the type included in the final official statement for the Bonds, as well as
9 disclosure of certain material events respecting the Bonds, in the manner and to the
10 extent required by United States Securities and Exchange Commission
11 Rule 15c2-12(b)(5). The particular terms of the Undertaking shall be set forth in the
12 Bond Resolution.

13 **Section 29. Advance Refunding or Defeasance of Bonds.** The City may issue
14 advance refunding bonds pursuant to the laws of the State or use money available from
15 any other lawful source to pay the principal of and interest on the Bonds, or such portion
16 thereof included in a refunding or defeasance plan, as the same become due and payable
17 and to redeem and retire, release, refund or defease the Bonds (the "Defeased Bonds")
18 and to pay the costs of such refunding or defeasance. In the event that money and/or
19 Government Obligations sufficient in amount, together with known earned income from
20 the investments thereof, to redeem and retire, release, refund or defease the defeased
21 Bonds in accordance with their terms, are set aside irrevocably in a special fund for and
22 pledged irrevocably to such redemption, retirement or defeasance (the "trust account"),
23 then all right and interest of the owners of the defeased Bonds in the covenants of this
24 ordinance and in the Net Revenue and the funds and accounts pledged to the payment of
25 such defeased Bonds, other than the right to receive the funds so set aside and pledged,
26 thereafter shall cease and become void. Such owners thereafter shall have the right to

1 receive payment of the principal of and interest or redemption price on the defeased
2 Bonds from the trust account.

3 After the establishing and full funding of such a trust account, the City then may
4 apply any money in any other fund or account established for the payment or redemption
5 of the defeased Bonds to any lawful purposes as it shall determine, subject only to the
6 rights of the owners of any other Parity Bonds.

7 If the refunding plan provides that the defeased Bonds to be issued be secured by
8 money and/or Government Obligations pending the prior redemption of the defeased
9 Bonds and if such refunding plan also provides that certain money and/or Government
10 Obligations are pledged irrevocably for the prior redemption of the defeased Bonds
11 included in that refunding plan, then only the debt service on the Bonds which are not
12 defeased Bonds and the refunding bonds, the payment of which is not so secured by the
13 refunding plan, shall be included in the computation of the Coverage Requirement for the
14 issuance of Future Parity Bonds and the annual computation of the Coverage
15 Requirement for determining compliance with the rate covenants.

16 **Section 30. Amendatory and Supplemental Ordinances.**

17 (a) This ordinance shall not be modified or amended in any respect
18 subsequent to the initial issuance of the Bonds, except as provided in and in accordance
19 with and subject to the provisions of this Section 30.

20 (b) The City, from time to time, and at any time, without the consent of or
21 notice to the owners of the Bonds, may pass supplemental or amendatory ordinances as
22 follows:

23 (1) To cure any formal defect, omission, inconsistency or ambiguity in
24 this ordinance in a manner not adverse to the owner of any Parity Bond;

25 (2) To impose upon the Bond Registrar (with its consent) for the
26 benefit of the owners of the Bonds any additional rights, remedies, powers, authority,

1 security, liabilities or duties which may lawfully be granted, conferred or imposed and
2 which are not contrary to or inconsistent with this ordinance as therefore in effect;

3 (3) To add to the covenants and agreements of, and limitations and
4 restrictions upon, the City in this ordinance, other covenants, agreements, limitations and
5 restrictions to be observed by the City which are not contrary or inconsistent with this
6 ordinance as therefore in effect;

7 (4) To confirm, as further assurance, any pledge under, and the
8 subjection to any claim, lien or pledge created or to be created by this ordinance of any
9 other money, securities or funds;

10 (5) To authorize different denominations of the Bonds and to make
11 correlative amendments and modifications to this ordinance regarding exchangeability of
12 Bonds of different authorized denominations, redemptions of portions of Bonds of
13 particular authorized denominations and similar amendments and modifications of a
14 technical nature;

15 (6) To modify, alter, amend or supplement this ordinance in any other
16 respect which is not materially adverse to the owners of the Parity Bonds and which does
17 not involve a change described in Section 30(c);

18 (7) Because of change in federal law or rulings, to maintain the
19 exclusion from gross income of the interest on the Bonds from federal income taxation;
20 and

21 (8) To add to the covenants and agreements of, and limitations and
22 restrictions upon, the City in this ordinance, other covenants, agreements, limitations and
23 restrictions to be observed by the City which are requested by a Bond Insurer or provider
24 of Reserve Insurance and which are not materially adverse to the owners of the Parity
25 Bonds.
26

1 Before the City shall adopt any such supplemental ordinance pursuant to this
2 Section 30(b), there shall have been delivered to the City and the Bond Registrar an
3 opinion of Bond Counsel, stating that such supplemental ordinance is authorized or
4 permitted by this ordinance and, upon the execution and delivery thereof, will be valid
5 and binding upon the City in accordance with its terms and will not adversely affect the
6 exclusion from gross income for federal income tax purposes of interest on the Bonds.

7 (c) (1) Except for any supplemental ordinance entered into pursuant to
8 Section 30(b), subject to the terms and provisions contained in this Section 30(c) and not
9 otherwise, Registered Owners of not less than sixty percent (60%) in aggregate principal
10 amount of the Parity Bonds shall have the right from time to time to consent to and
11 approve the passage by the City of any supplemental ordinance deemed necessary or
12 desirable by the City for the purpose of modifying, altering, amending, supplementing or
13 rescinding, in any particular, any of the terms or provisions contained in this ordinance;
14 except that, unless approved in writing by the Registered Owners of all Parity Bonds,
15 nothing contained in this Section 30 shall permit, or be construed as permitting:

16 (i) A change in the times, amounts or currency of
17 payment of the principal of or interest on any outstanding Parity
18 Bond, or a reduction in the principal amount or redemption price
19 of any outstanding Parity Bond or a change in the redemption price
of any outstanding Parity Bond or a change in the method of
determining the rate of interest thereon, or

20 (ii) A preference or priority of any Parity Bond or
Bonds or any other bond or bonds, or

21 (iii) A reduction in the aggregate principal amount of
22 Parity Bonds, the consent of the Registered Owners of which is
required for any such supplemental ordinance.

23 (2) If at any time the City shall pass any supplemental ordinance for
24 any of the purposes of this Section 30(c), the Bond Registrar shall cause notice of the
25 proposed supplemental ordinance to be given by first-class United States mail to all
26 Registered Owners of the Parity Bonds, to any Bond Insurer, and to the Rating Agencies

1 if the Bonds are rated by those agencies. Such notice shall briefly set forth the nature of
2 the proposed supplemental ordinance and shall state that a copy thereof is on file at the
3 office of the Bond Registrar for inspection by all Registered Owners of the Parity Bonds.

4 (3) Within two years after the date of the mailing of such notice, the
5 City may adopt such supplemental ordinance in substantially the form described in such
6 notice, but only if there shall have first been delivered to the Bond Registrar (i) the
7 required consents, in writing, of the Registered Owners of the Parity Bonds, and (ii) an
8 opinion of bond counsel stating that such supplemental ordinance is authorized or
9 permitted by this ordinance and, upon the execution and delivery thereof, will be valid
10 and binding upon the City in accordance with its terms and will not adversely affect the
11 exclusion from gross income for federal income tax purposes of interest on the Parity
12 Bonds.

13 (4) If Registered Owners of not less than the percentage of Parity
14 Bonds required by this Section 30(c) shall have consented to and approved the execution
15 and delivery thereof as herein provided, no owner of the Parity Bonds shall have any
16 right to object to the passage of such supplemental ordinance, or to object to any of the
17 terms and provisions contained therein or the operation thereof, or in any manner to
18 question the propriety of the passage thereof, or to enjoin or restrain the City or the Bond
19 Registrar from passing the same or from taking any action pursuant to the provisions
20 thereof.

21 (d) Upon the execution and delivery of any supplemental ordinance pursuant
22 to the provisions of this Section 30, this ordinance shall be, and be deemed to be,
23 modified and amended in accordance therewith, and the respective rights, duties and
24 obligations under this ordinance of the City, the Bond Registrar and all owners of Parity
25 Bonds, shall thereafter be determined, exercised and enforced under this ordinance
26 subject in all respects to such modifications and amendments.

1 **Section 31. Defaults and Remedies.**

2 **(a) Events of Default.** The following shall constitute “Events of
3 Default” with respect to the Bonds:

4 (1) If a default is made in the payment of the principal of or
5 interest on any of the Bonds when the same shall become due and payable; or

6 (2) If the City defaults in the observance and performance of
7 any other of the covenants, conditions and agreements on the part of the City set forth in
8 this ordinance or any covenants, conditions or agreements on the part of the City
9 contained in any Parity Bond Authorizing Ordinance and such default or defaults have
10 continued for a period of six months after the City has received from the Bond Owners’
11 Trustee (as defined below) or from the Registered Owners of not less than twenty-five
12 percent (25%) in principal amount of the Parity Bonds, a written notice specifying and
13 demanding the cure of such default. However, if the default in the observance and
14 performance of any other of the covenants, conditions and agreements is one which
15 cannot be completely remedied within the six (6) months after written notice has been
16 given, it shall not be an Event of Default with respect to the Bonds as long as the City has
17 taken active steps within the six (6) months after written notice has been given to remedy
18 the default and is diligently pursuing such remedy.

19 (3) If the City files a petition in bankruptcy or is placed in
20 receivership under any state or federal bankruptcy or insolvency law.

21 **(b) Bond Owners’ Trustee.** So long as such Event of Default has not
22 been remedied, a trustee (the “Bond Owners’ Trustee”) may be appointed by the
23 Registered Owners of twenty-five percent (25%) in principal amount of the Parity Bonds,
24 by an instrument or concurrent instruments in writing signed and acknowledged by such
25 Registered Owners of the Parity Bonds or by their attorneys-in-fact duly authorized and
26 delivered to such Bond Owners’ Trustee, notification thereof being given to the City.

1 That appointment shall become effective immediately upon acceptance thereof by the
2 Bond Owners' Trustee. Any Bond Owners' Trustee appointed under the provisions of
3 this Section (b) shall be a bank or trust company organized under the laws of the State of
4 Washington or the State of New York or a national banking association. The bank or
5 trust company acting as Bond Owners' Trustee may be removed at any time, and a
6 successor Bond Owners' Trustee may be appointed, by the Registered Owners of a
7 majority in principal amount of the Parity Bonds, by an instrument or concurrent
8 instruments in writing signed and acknowledged by such Registered Owners of the
9 Bonds or by their attorneys-in-fact duly authorized. The Bond Owners' Trustee may
10 require such security and indemnity as may be reasonable against the costs, expenses and
11 liabilities that may be incurred in the performance of its duties.

12 In the event that any Event of Default in the sole judgment of the Bond Owners'
13 Trustee is cured and the Bond Owners' Trustee furnishes to the City a certificate so
14 stating, that Event of Default shall be conclusively deemed to be cured and the City, the
15 Bond Owners' Trustee and the Registered Owners of the Parity Bonds shall be restored
16 to the same rights and position which they would have held if no Event of Default had
17 occurred.

18 The Bond Owners' Trustee appointed in the manner herein provided, and each
19 successor thereto, is declared to be a trustee for the Registered Owners of all the Parity
20 Bonds and is empowered to exercise all the rights and powers herein conferred on the
21 Bond Owners' Trustee.

22 (c) **Suits at Law or in Equity.** Upon the happening of an Event of
23 Default and during the continuance thereof, the Bond Owners' Trustee may, and upon the
24 written request of the Registered Owners of not less than twenty-five percent (25%) in
25 principal amount of the Parity Bonds outstanding shall, take such steps and institute such
26 suits, actions or other proceedings, all as it may deem appropriate for the protection and

1 enforcement of the rights of the Registered Owners of the Parity Bonds, to collect any
2 amounts due and owing to or from the City, or to obtain other appropriate relief, and may
3 enforce the specific performance of any covenant, agreement or condition contained in
4 this ordinance or in any of the Parity Bonds.

5 Nothing contained in this Section 31 shall, in any event or under any
6 circumstance, be deemed to authorize the acceleration of maturity of principal on the
7 Parity Bonds, and the remedy of acceleration is expressly denied to the Registered
8 Owners of the Parity Bonds under any circumstances including, without limitation, upon
9 the occurrence and continuance of an Event of Default.

10 Any action, suit or other proceedings instituted by the Bond Owners' Trustee
11 hereunder shall be brought in its name as trustee for the Bond owners and all such rights
12 of action upon or under any of the Parity Bonds or the provisions of this ordinance may
13 be enforced by the Bond Owners' Trustee without the possession of any of those Parity
14 Bonds and without the production of the same at any trial or proceedings relative thereto
15 except where otherwise required by law. Any such suit, action or proceeding instituted
16 by the Bond Owners' Trustee shall be brought for the ratable benefit of all of the
17 Registered Owners of those Parity Bonds, subject to the provisions of this ordinance.
18 The respective Registered Owners of the Parity Bonds, by taking and holding the same,
19 shall be conclusively deemed irrevocably to appoint the Bond Owners' Trustee the true
20 and lawful trustee of the respective Registered Owners of those Parity Bonds, with
21 authority to institute any such action, suit or proceeding; to receive as trustee and deposit
22 in trust any sums becoming distributable on account of those Parity Bonds; to execute
23 any paper or documents for the receipt of money; and to do all acts with respect thereto
24 that the Registered Owner himself or herself might have done in person. Nothing herein
25 shall be deemed to authorize or empower the Bond Owners' Trustee to consent to accept
26 or adopt, on behalf of any Registered Owner of the Parity Bonds, any plan of

1 reorganization or adjustment affecting the Parity Bonds or any right of any owner
2 thereof, or to authorize or empower the Bond Owners' Trustee to vote the claims of the
3 Registered Owners thereof in any receivership, insolvency, liquidation, bankruptcy,
4 reorganization or other proceeding to which the City is a party.

5 **(d) Application of Money Collected by Bond Owners' Trustee.**

6 Any money collected by the Bond Owners' Trustee at any time pursuant to this
7 Section 31 shall be applied in the following order of priority:

8 (i) first, to the payment of the charges,
9 expenses, advances and compensation of the Bond Owners' Trustee and
10 the charges, expenses, counsel fees, disbursements and compensation of
its agents and attorneys; and

11 (ii) second, to the payment to the persons
12 entitled thereto of all installments of interest then due on the Parity Bonds
13 in the order of maturity of such installments and, if the amount available
14 shall not be sufficient to pay in full any installment or installments
maturing on the same date, then to the payment thereof ratably, according
to the amounts due thereon to the persons entitled thereto, without any
discrimination or preference; and

15 (iii) third, to the payment to the persons entitled
16 thereto of the unpaid principal amounts of any Parity Bonds which shall
17 have become due (other than Parity Bonds previously called for
18 redemption for the payment of which money is held pursuant to the
19 provisions hereto), whether at maturity or by proceedings for redemption
or otherwise, in the order of their due dates and, if the amount available
shall not be sufficient to pay in full the principal amounts due on the same
date, then to the payment thereof ratably, according to the principal
amounts due thereon to the persons entitled thereto, without any
discrimination or preference.

20 **(e) Duties and Obligations of Bond Owners' Trustee.** The Bond
21 Owners' Trustee shall not be liable except for the performance of such duties as are
22 specifically set forth herein. During an Event of Default, the Bond Owners' Trustee shall
23 exercise such of the rights and powers vested in it hereby, and shall use the same degree
24 of care and skill in its exercise, as a prudent person would exercise or use under the
25 circumstances in the conduct of his or her own affairs. The Bond Owners' Trustee shall
26

1 have no liability for any act or omission to act hereunder except for the Bond Owners'
2 Trustee's own negligent action, its own negligent failure to act or its own willful
3 misconduct. The duties and obligations of the Bond Owners' Trustee shall be determined
4 solely by the express provisions of this ordinance, and no implied powers, duties or
5 obligations of the Bond Owners' Trustee shall be read into this ordinance.

6 The Bond Owners' Trustee shall not be required to expend or risk its own funds
7 or otherwise incur individual liability in the performance of any of its duties or in the
8 exercise of any of its rights or powers as the Bond Owners' Trustee, except as may result
9 from its own negligent action, its own negligent failure to act or its own willful
10 misconduct.

11 The Bond Owners' Trustee shall not be bound to recognize any person as a
12 Registered Owner of any Bond until his title thereto, if disputed, has been established to
13 its reasonable satisfaction.

14 The Bond Owners' Trustee may consult with counsel and the opinion of such
15 counsel shall be full and complete authorization and protection in respect of any action
16 taken or suffered by it hereunder in good faith and in accordance with the opinion of such
17 counsel. The Bond Owners' Trustee shall not be answerable for any neglect or default of
18 any person, firm or corporation employed and selected-by it with reasonable care.

19 (f) **Suits by Individual Bond Owners Restricted.** No owner of any
20 one or more of Parity Bonds shall have any right to institute any action, suit or
21 proceeding at law or in equity for the enforcement of same unless:

22 (i) an Event of Default has happened and is
23 continuing;

24 (ii) a Bond Owners' Trustee has been
appointed;

25 (iii) such owner previously shall have given to
26 the Bond Owners' Trustee written notice of the Event of Default on
account of which such suit, action or proceeding is to be instituted;

1 (iv) the Registered Owners of twenty-five
2 percent (25%) in principal amount of the Parity Bonds, after the
3 occurrence of such Event of Default, has made written request of the Bond
Owners' Trustee and have afforded the Bond Owners' Trustee a
reasonable opportunity to institute such suit, action or proceeding;

4 (v) there have been offered to the Bond
5 Owners' Trustee security and indemnity satisfactory to it against the costs,
expenses and liabilities to be incurred therein or thereby; and

6 (vi) the Bond Owners' Trustee has refused or
7 neglected to comply with such request within a reasonable time.

8
9 No owner of any Parity Bond shall have any right in any manner whatever by his
10 action to affect or impair the obligation of the City to pay from the Net Revenue the
11 principal of and interest on such Parity Bonds to the respective Registered Owners
thereof when due.

12 (g) **Failure to Comply With Undertaking.** Notwithstanding
13 anything in this Section 31 to the contrary, the failure of the City or any obligated person
14 to comply with the Undertaking adopted by the Bond Resolution pursuant to Section 28
15 shall not constitute an Event of Default hereunder, and the sole remedy of any holder of a
16 Bond shall be to seek an order of specific performance from an appropriate court to
17 compel the City to comply with the Undertaking.

18 **Section 32. Sale of Bonds.** The Director of Finance may provide for the sale of
19 the Bonds by public sale or by a negotiated sale with the underwriters chosen through a
20 selection process determined by the Director of Finance. The terms of that sale shall be
21 consistent with this ordinance and confirmed by the Bond Resolution. The Bonds will be
22 delivered, at the City's expense, to the purchasers as provided in the Bond Resolution
23 immediately upon payment to the City of the purchase price plus accrued interest to the
24 date of closing in immediately available federal funds in Seattle, Washington, or at
25
26

1 another time or place upon which the Director of Finance and the purchasers may
2 mutually agree at the purchasers' expense.

3 CUSIP numbers will be printed on the Bonds, but neither failure to print CUSIP
4 numbers on any Bond nor error with respect thereto shall constitute cause for a failure or
5 refusal by the Purchasers to accept delivery of and pay for the Bonds in accordance with
6 the purchase offer. All expenses in relation to the printing of CUSIP numbers on the
7 Bonds shall be paid by the City, but the fee of the CUSIP Service Bureau for the
8 assignment of those numbers shall be the responsibility of and shall be paid by the
9 purchasers.

10 The City will cause the Bonds to be typed, photocopied, printed or lithographed,
11 sealed and executed and will furnish the approving legal opinion of Bond Counsel, the
12 opinion also being printed on each Bond unless the Bond is typed or photocopied.

13 **Section 33. General Authorization.** The Mayor and the Director of Finance of
14 the City and each of the other appropriate officers of the City are each authorized and
15 directed to do everything as in their judgment may be necessary, appropriate or desirable
16 in order to carry out the terms and provisions of, and complete the transactions
17 contemplated by, this ordinance. In particular, and without limitation, the Director of
18 Finance may, in his or her discretion and without further action by the City Council, (i)
19 deem final any preliminary official statement or official statement relating to the Bonds,
20 (ii) comply with any continuing disclosure requirements applicable to the Bonds and (iii)
21 change the Bond Registrar or any securities depository appointed for the Bonds.

22 **Section 34. Severability.** The provisions of this ordinance are declared to be
23 separate and severable. If a court of competent jurisdiction, all appeals having been
24 exhausted or all appeal periods having run, finds any provision of this ordinance to be
25 invalid or unenforceable as to any person or circumstance, such offending provision
26 shall, if feasible, be deemed to be modified to be within the limits of enforceability or

1 validity. However, if the offending provision cannot be so modified, it shall be null and
2 void with respect to the particular person or circumstance, and all other provisions of this
3 ordinance in all other respects, and the offending provision with respect to all other
4 persons and all other circumstances, shall remain valid and enforceable.

5 **Section 35. Ratification of Prior Acts.** Any action taken consistent with the
6 authority but prior to the effective date of this ordinance, including, if applicable, but not
7 limited to giving notices of the sale of Bonds, adopting the Bond Resolution, executing
8 contracts, making fund transfers and paying warrants, is ratified, approved and
9 confirmed.

10 **Section 36. Section Headings.** The Section headings in this ordinance are used
11 for convenience only and shall not constitute a substantive portion of this ordinance.

12 **Section 37. Effective Date.** This ordinance shall take effect and be in force
13 thirty (30) days from and after its approval by the Mayor, but if not approved by the
14 Mayor and returned by the Mayor within ten (10) days after presentation, it shall take
15 effect as provided by Municipal Code Section 1.04.020.

16 Passed by the City Council the ____ day of _____, 2003, and signed by
17 me in open session in authentication of its passage this ____ day of _____,
18 2003.

19 _____
20 President _____ of the City
Council

21 Approved by me this ____ day of _____, 2003.

22 _____
23 Mayor

24 Filed by me this ____ day of _____, 2003.

25 _____
26 City Clerk

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(SEAL)

APPENDIX A-2

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions of Resolution No. 30598 adopted on April 29, 2003 (the "Resolution"), which were required by the Insurer in connection with the issuance of its bond insurance policy and debt service reserve surety bond. The summary is qualified in its entirety by reference to the Resolution.

Amendment of Bond Ordinance. The City shall notify the Bond Insurer of any amendment of or supplement to the Bond Ordinance permitted to be made without the consent of the owners of the Bonds under Section 30(b) of the Bond Ordinance. The prior written consent of the Bond Insurer shall be required for any amendment of or supplement to the Bond Ordinance requiring consent of Bond owners pursuant to Section 30(c) of the Bond Ordinance.

Remedies on Default. Notwithstanding anything in Section 31 of the Bond Ordinance, entitled "Defaults and Remedies," to the contrary, the Bond Insurer, acting alone, shall have the right to direct all remedies with respect to the Bonds insured by it if an Event of a Default occurs under the Bond Ordinance. The Bond Insurer shall be recognized as the registered owner of each Bond which it insures for the purposes of exercising all rights and privileges available to owners of the Bonds. For Bonds which it insures, the Bond Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as a Bond owner in accordance with Section 31 of the Bond Ordinance.

Defeasance of Bonds. Notwithstanding anything in Section 29 of the Bond Ordinance, entitled "Advance Refunding and Defeasance of the Bonds," to the contrary, the City shall provide or cause to be provided to the Bond Insurer: (i) an opinion of Bond Counsel acceptable to the Bond Insurer that the Defeased Bonds have been legally defeased and that the escrow agreement establishing such defeasance operates to legally defease the Bonds within the meaning of the Bond Ordinance; (ii) 15 business days notice of any advance refunding of all or any portion of the Bonds; and (iii) an accountant's report with respect to the sufficiency of the amounts deposited in escrow to defease the Bonds. In addition, defeasance obligations shall be limited the following:

1. Cash
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series-"SLGs")
3. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities
4. Resolution Funding Corp. (REFCORP). Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.
5. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA-rated pre-refunded municipals to satisfy this condition.
6. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:
 - a. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
 - b. Farmers Home Administration (FmHA)

Certificates of beneficial ownership

- c. Federal Financing Bank
- d. General Services Administration

Participation certificates

- e. U.S. Maritime Administration

Guaranteed Title XI financing

- f. U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local Authority Bonds

New Communities Debentures—U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds—U.S. government guaranteed public housing notes and bonds

Permitted Investments. Notwithstanding anything in the Bond Ordinance to the contrary, money in the Bond Account, including the Reserve Subaccount therein, shall be invested only in investments permitted by the Bond Insurer as set forth in the Bond Insurance Commitment, but only to the extent such investments are permitted under State law. Investments, if any, of money in the Reserve Subaccount shall be valued at fair market value and marked to market at least annually. Further, no investment of money in the Reserve Subaccount shall have a maturity in excess of five (5) years, except in the case of investment agreements approved by the Bond Insurer.

Defeasance of Bonds. Notwithstanding anything in Section 29 of the Bond Ordinance, entitled “Advance Refunding and Defeasance of the Bonds,” to the contrary, if the principal of and/or interest due on the Bonds is paid by the Bond Insurer pursuant to the Surety Bond, the Bonds shall be treated as remaining outstanding for all purposes and shall not be considered paid by the City, and the covenants, agreements and other obligations of the City under the Bond Ordinance and this resolution to the registered owners of the Bonds shall continue to exist and run to the benefit of the Bond Insurer until all amounts owed by the City to the Bond Insurer under the Financial Guaranty Agreement have been paid in full.

Optional Redemption of Bonds. Notwithstanding anything in the Bond Ordinance or the Resolution to the contrary, if the principal of and/or interest due on the Bonds is paid by the Bond Insurer pursuant to the Surety Bond, the City shall not have the right to optionally redeem the Bonds unless and until the City has repaid all such payments made by the Bond Insurer, including interest thereon, all in accordance with the Financial Guaranty Agreement.

Reserve Insurance. Notwithstanding anything in the Bond Ordinance to the contrary, any Reserve Insurance shall be issued by an institution which has been assigned a credit rating at the time of issuance in the highest rating category of each of the Rating Agencies.

APPENDIX B

FORM OF BOND COUNSEL OPINION

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[FORM OF APPROVING LEGAL OPINION]

The City of Seattle, Washington

Re: The City of Seattle, Washington, \$ _____
Water System and Refunding Revenue Bonds, 2003

We have served as bond counsel to The City of Seattle, Washington (the "City"), in connection with the issuance of the above-referenced bonds (the "Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion and of which attorneys within the firm involved with the issuance of the Bonds have no independent knowledge, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance _____ and Resolution _____ of the City (collectively, the "Bond Legislation") to provide the funds to pay part of the cost of carrying out a plan of additions and betterments to and extensions of the Municipal Water System, to refund a portion of the City's outstanding Water System revenue bonds, to satisfy the Reserve Requirement, and to pay the costs of issuance and sale of the Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of the capitalized terms used and not otherwise defined herein.

The Bonds are special limited obligations of the City payable solely out of the Water Revenue Bond Account (the "Bond Account"), into which account the City irrevocably has bound itself to pay all ULID Assessments upon their collection (except for ULID Assessments deposited in a construction account) and certain fixed amounts out of the Net Revenue of the Municipal Water System, without regard to any fixed proportion, namely, amounts sufficient to pay the principal of and interest on the Parity Bonds as they respectively become due and to satisfy the Reserve

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Oregon

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SPOKANE
Washington

Requirement, all at the times and in the manner set forth in the Bond Legislation.

The Net Revenue of the Municipal Water System and all money and investments in the Bond Account (including the Reserve Subaccount therein), the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code) have been pledged to the payment of the Parity Bonds and to make payments into the Bond Account required by the Bond Ordinance and Parity Bond Authorizing Ordinances, and this pledge constitutes a lien and charge upon the Net Revenue on a parity of lien and charge with the Outstanding Parity Bonds and any Future Parity Bonds and prior and superior to any other charges whatsoever.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;
2. The City has duly authorized and approved the Bond Legislation, and the Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and other ordinances and resolutions of the City relating thereto;
3. The Bonds constitute valid obligations of the City payable solely out of the Net Revenue of the Municipal Water System and money in the Bond Account (including the Reserve Subaccount therein), the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code) except only to the extent that enforcement of payment may

be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by principles of equity if equitable remedies are sought;

4. The Bonds are not general obligations of the City; and

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

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APPENDIX C

2002 AUDITED FINANCIAL STATEMENTS OF THE WATER SYSTEM

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***Seattle Public Utilities—
Water Fund
(An Enterprise Fund of
the City of Seattle)***

*Financial Statements and Additional Information
for the Years Ended December 31, 2002 and 2001,
and Independent Auditors' Report*

SEATTLE PUBLIC UTILITIES—WATER FUND

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INDEPENDENT AUDITORS' REPORT

Director
Seattle Public Utilities—Water Fund
Seattle, Washington

We have audited the accompanying balance sheets of the Seattle Public Utilities—Water Fund (the “Fund”) as of December 31, 2002 and 2001, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2002 the Fund adopted Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The accompanying management’s discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Deloitte & Touche LLP".

April 2, 2003

SEATTLE PUBLIC UTILITIES—WATER FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2002

The financial statements contained in this report document the financial performance of the Water Fund of Seattle Public Utilities. The revenues, expenses, assets, and liabilities of Seattle's water system are recorded in the Water Fund. The financial situation of other aspects of Seattle city government, including other utility services and general government operations, are reported elsewhere.

This section of the report summarizes the financial situation of the Water Fund, especially with respect to changes since 2001.

SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The following statements of revenues, expenses, and changes in net assets present the annual surplus or deficiency of revenues over expenses (the change in net assets):

	2002	2001
Operating revenues	\$ 118,160,130	\$ 105,345,317
Operating expenses	<u>90,862,948</u>	<u>86,346,768</u>
Net operating income	27,297,182	18,998,549
Other expenses	(24,257,765)	(19,585,237)
Loss on Tacoma Project	(6,636,051)	
Capital and operating fees, contributions, and grants	<u>6,167,043</u>	<u>5,470,681</u>
Change in net assets	<u>\$ 2,570,409</u>	<u>\$ 4,883,993</u>

In 2002, the water system experienced net income of \$2.6 million. Net income in 2002 was somewhat lower than in 2001, principally because of a \$6.6 million loss recorded on a water supply project known as the Tacoma Project. This supply project was a partnership with the City of Tacoma and several other utilities to expand the supply system of Tacoma and build a pipeline to deliver a portion of the expanded supply to Seattle. Over the last decade, Seattle has paid approximately \$6.6 million of preliminary project costs. Seattle will no longer participate in the project, so this \$6.6 million was written off as an expense in 2002. 2002 water demand of 137 MGD (millions of gallons of water per day) is far less than the 171 MGD firm yield of the supply system, so participation in the Tacoma Project is not necessary to ensure water supply in the near term.

Operating revenues were \$12.8 million higher in 2002 than 2001. These additional revenues were generated primarily from rate increases effective January 1 and September 16. An additional 10.6% rate increase has been adopted, effective January 1, 2004. Total operating expenses were \$4.5 million higher in 2002 than 2001, of which \$1.5 million was due to increased depreciation and amortization expenses resulting from capital investments and \$0.9 million was due to increased revenue tax payments. Due to the lateness of rains that normally refill supply reservoirs, standby pumping plants and wellfields were mobilized to ensure adequate water supply. This mobilization added \$1.4 million to field operations costs in 2002.

Other expenses also increased by \$4.7 million, of which \$2.0 million was increased interest expense, \$1.4 million was decreased land sales revenue, and \$1.1 million was decreased interest earnings on cash and investments. Interest expenses are expected to continue to increase, reflecting substantial debt financing of the capital program. Land sales revenue and interest earnings are expected to vary from year to year.

SUMMARY BALANCE SHEETS

The following summary balance sheets present the assets of the water system and show the mix of liabilities and net assets used to acquire these assets:

	2002	2001
Assets:		
Current assets	\$ 28,621,081	\$ 26,327,941
Noncurrent assets:		
Utility plant—net	848,137,209	783,001,388
Other	<u>64,110,534</u>	<u>76,467,497</u>
Total assets	940,868,824	885,796,826
Liabilities:		
Current liabilities	46,052,101	39,077,509
Noncurrent liabilities:		
Long-term debt	622,766,292	577,187,288
Other	<u>8,403,057</u>	<u>8,455,064</u>
Total liabilities	<u>677,221,450</u>	<u>624,719,861</u>
Net assets:		
Invested in capital—net of related debt	\$262,152,705	\$259,318,696
Unrestricted	<u>1,494,669</u>	<u>1,758,269</u>
Total net assets	<u>\$263,647,374</u>	<u>\$261,076,965</u>

Assets—Current assets increased by approximately \$2.3 million, largely due to increases in accounts receivable. The standing balance of accounts receivable has increased because rates and direct service and wholesale revenues have increased. Most of the \$12.4 million reduction in other assets reflects lower year-end construction fund cash balances in 2002 than in 2001. Construction fund cash balances vary from year to year depending upon the amount of new debt issued and the level of debt-funded capital investment.

Significant capital spending of \$92.4 million increased net utility plant (including work in progress) by approximately \$65.1 million. Of this, \$35.7 million was construction of a new treatment plant on the Cedar River source of supply that is expected to be complete in 2004. The remaining \$56.7 million in capital acquisitions include pipeline, conservation, and distribution system improvements, including \$7.7 million in projects related to the Cedar River Habitat Conservation Plan. Large capital investments are expected to continue. Over the next six years, the adopted capital improvement program totals \$612.8 million, and includes \$40.4 million to complete the treatment plant on the Cedar River and \$133.4 million to bury above-ground reservoirs.

Liabilities—Current liabilities increased by approximately \$6.9 million, of which \$2.0 million is due to revenue bonds due in 2003. This increase in debt service payments reflects ongoing debt financing of a substantial capital program. Accounts payable increased by \$4.7 million associated with capital program

costs accrued at year end. The amount of these accrued costs varies annually with the invoices received from contractors.

Long-Term Debt—In 2002, \$65.0 million in revenue bonds were issued to finance the water system capital program. These bonds were insured and rated Aaa by Moody's and AAA by Standard & Poor's. The water system's underlying bond rating continues to be Aa2 and AA respectively, with a stable outlook. This bond issue, net of the bonds retired in 2002, is responsible for the \$45.6 million increase in the water system's long-term debt liability. The water system expects to continue to finance a large portion of its capital program with revenue bonds in the near term.

Net Assets—Net assets are the portion of the assets of the water system no longer financed with revenue bonds or other liabilities. Net assets increased by \$2.6 million from 2001 to 2002.

SEATTLE PUBLIC UTILITIES—WATER FUND

BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

ASSETS	2002	2001
CURRENT ASSETS:		
Cash and equity in pooled investments	\$ 3,990,918	\$ 1,254,645
Rate Stabilization Account—cash and equity in pooled investments		3,000,000
Accounts receivable, net of allowances for doubtful accounts of \$148,268 and \$133,756	10,528,750	8,587,663
Unbilled revenues	7,076,983	6,444,933
Current portion of notes and contracts receivable	91,618	86,615
Due from other City funds	724,880	1,655,192
Due from other governments	1,366,745	778,299
Materials and supplies inventory	4,827,185	4,508,735
Prepayments and other	14,002	11,859
	<u>28,621,081</u>	<u>26,327,941</u>
RESTRICTED ASSETS:		
Bond Parity Account—cash and equity in pooled investments	3,052,300	137,095
Construction Fund:		
Cash and equity in pooled investments	19,430,360	1,415,666
Investments		33,578,241
Vendor deposits—cash and equity in pooled investments	<u>676,460</u>	<u>945,575</u>
	<u>23,159,120</u>	<u>36,076,577</u>
DEFERRED CHARGES AND OTHER:		
Unamortized bond issue costs—net	4,630,763	4,658,777
Notes and contracts receivable	710,013	801,631
Deferred conservation costs—net	13,273,045	10,897,135
Other deferred charges	<u>22,337,593</u>	<u>24,033,377</u>
	<u>40,951,414</u>	<u>40,390,920</u>
UTILITY PLANT—At original cost:		
Plant in service—excluding land	919,598,013	823,936,163
Less accumulated depreciation	<u>(244,852,718)</u>	<u>(225,141,848)</u>
	<u>674,745,295</u>	<u>598,794,315</u>
Construction in progress	159,569,204	170,421,339
Land and land rights	13,548,198	13,511,222
Nonoperating property—net of accumulated depreciation	<u>274,512</u>	<u>274,512</u>
	<u>848,137,209</u>	<u>783,001,388</u>
TOTAL	<u>\$ 940,868,824</u>	<u>\$ 885,796,826</u>

See notes to financial statements.

LIABILITIES	2002	2001
CURRENT LIABILITIES:		
Accounts payable	\$ 11,309,675	\$ 6,484,749
Accrued payroll and payroll taxes payable	1,357,254	1,323,540
Compensated absences payable	481,700	334,344
Due to other City funds	2,879,828	2,896,446
Interest payable	7,925,208	8,079,195
Taxes payable	387,231	188,898
Claims payable	645,032	596,060
Revenue bonds due within one year	20,363,956	18,360,000
Public works trust loan due within one year	118,217	118,217
Deferred credits and other	584,000	696,060
	<u>46,052,101</u>	<u>39,077,509</u>
REVENUE BONDS:		
Revenue bonds—due serially	654,130,000	607,490,000
Less revenue bonds due within one year	(20,363,956)	(18,360,000)
Less bond discount and premium—net	(4,817,671)	(5,144,835)
Less deferred charges on advance refunding	<u>(6,182,081)</u>	<u>(6,797,877)</u>
	622,766,292	577,187,288
NONCURRENT AND OTHER LIABILITIES:		
Compensated absences payable—noncurrent	2,678,722	2,906,458
Public works trust loan	1,182,167	1,300,384
Claims payable	1,963,594	1,291,164
Environmental liability	1,225,633	1,300,000
Vendor deposits payable	676,460	945,575
Other	676,481	711,483
	<u>8,403,057</u>	<u>8,455,064</u>
Total liabilities	677,221,450	624,719,861
NET ASSETS:		
Invested in capital assets—net of related debt	262,152,705	259,318,696
Unrestricted	<u>1,494,669</u>	<u>1,758,269</u>
Total net assets	263,647,374	261,076,965
TOTAL	<u>\$ 940,868,824</u>	<u>\$ 885,796,826</u>

SEATTLE PUBLIC UTILITIES—WATER FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
OPERATING REVENUES:		
Direct service	\$ 80,846,459	\$ 72,891,449
Wholesale	35,787,617	30,936,018
Other	<u>1,526,054</u>	<u>1,517,850</u>
Total operating revenues	118,160,130	105,345,317
OPERATING EXPENSES:		
Resource management	8,312,131	9,035,739
Field operations	24,232,845	21,887,842
Engineering services	2,623,295	2,374,650
Customer services	8,075,049	7,701,374
General and administrative	10,652,161	10,736,150
City business and occupation taxes	7,867,504	7,157,162
Other taxes	3,928,747	3,705,544
Depreciation and amortization	<u>25,171,216</u>	<u>23,748,307</u>
Total operating expenses	<u>90,862,948</u>	<u>86,346,768</u>
NET OPERATING INCOME	27,297,182	18,998,549
OTHER INCOME (EXPENSES):		
Investment and interest income	1,147,940	2,206,350
Interest expense	(24,971,602)	(23,009,583)
Amortization of debt expenses	(258,957)	(238,849)
Loss on Tacoma Project	(6,636,051)	
Other—net	<u>(175,146)</u>	<u>1,456,845</u>
Total other expenses	(30,893,816)	(19,585,237)
CAPITAL AND OPERATING FEES, CONTRIBUTIONS, AND GRANTS:		
Capital fees, contributions, and grants	6,167,043	5,186,225
Operating fees, contributions, and grants	<u></u>	<u>284,456</u>
Total capital and operating fees, contributions, and grants	<u>6,167,043</u>	<u>5,470,681</u>
CHANGE IN NET ASSETS	2,570,409	4,883,993
NET ASSETS:		
Beginning of year	<u>261,076,965</u>	<u>256,192,972</u>
End of year	<u>\$263,647,374</u>	<u>\$261,076,965</u>

See notes to financial statements.

SEATTLE PUBLIC UTILITIES—WATER FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 116,333,305	\$ 103,325,834
Cash paid to suppliers and employees	(50,320,223)	(52,956,312)
Cash paid for taxes	(10,994,246)	(10,949,947)
Net cash provided by operating activities	55,018,836	39,419,575
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES—Operating grants received		284,456
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the sale of bonds	64,923,517	53,109,459
Principal payments on revenue bonds	(18,360,000)	(17,595,000)
Debt issuance costs	(230,943)	(708,715)
Principal payment on public works trust loan	(118,217)	(118,217)
Acquisition and construction of utility plant and additions to deferred assets	(90,409,986)	(78,225,637)
Interest paid	(31,319,372)	(29,148,661)
Capital fees, contributions and grants	6,167,043	5,186,225
Cash received from disposal of capital assets		1,374,853
Net cash used in capital and related financing activities	(69,347,958)	(66,125,693)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments		(33,578,241)
Proceeds from sale of investments	33,578,241	
Interest received on investments	1,147,938	2,206,350
Net cash provided by (used in) investing activities	34,726,179	(31,371,891)
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	20,397,057	(57,793,553)
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	6,752,981	64,546,534
End of year	\$ 27,150,038	\$ 6,752,981

(Continued)

SEATTLE PUBLIC UTILITIES—WATER FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 27,297,182	\$ 18,998,549
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	25,171,216	23,748,307
Changes in operating assets and liabilities:		
Accounts receivable	(1,623,254)	(826,522)
Unbilled revenues	(632,050)	(730,231)
Due from other City funds	930,312	972,950
Due from other governments	(588,446)	(720,548)
Materials and supplies inventory	(318,450)	236,816
Current portion of notes and contracts receivable	(5,003)	(59,016)
Prepayments and other	(2,143)	5,376
Notes and contracts receivable	91,618	(656,117)
Environmental liability	(74,367)	(270,309)
Vendor deposits payable	(269,115)	(689,374)
Accounts payable	4,331,947	943,682
Accrued payroll and payroll taxes payable	33,714	393,794
Compensated absences payable	(80,380)	487,546
Due to other City funds	(16,618)	(1,905,109)
Claims payable	721,402	(1,015,058)
Other liabilities	51,271	504,839
Total adjustments	<u>27,721,654</u>	<u>20,421,026</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 55,018,836</u>	<u>\$ 39,419,575</u>

See notes to financial statements.

(Concluded)

SEATTLE PUBLIC UTILITIES—WATER FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2002 AND 2001

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations—The City of Seattle, Seattle Public Utilities—Water Fund (the “Fund”) is a public utility enterprise fund of the City of Seattle (the “City”). On January 1, 1997, the City created Seattle Public Utilities (“SPU”), which brought together under one administrative umbrella the Water, Solid Waste, and Drainage and Wastewater functions of the City as well as certain engineering functions. The Fund (as well as the other funds) remains separate for accounting purposes. SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City’s General Fund. Water services provided by the Fund to other City departments and agencies are billed at rates prescribed by City ordinances. Under direction of the Seattle City Council, no charges are made to the City for water services for public fire protection.

SPU provides customer service for, and the cost is shared among, SPU’s three utility funds (Water, Drainage and Wastewater, and Solid Waste) and Seattle City Light (“SCL”). In addition, SPU also performed utility billing for each of these entities until early 2001, when SCL implemented its new billing system, Combined Customer Service System, and began performing the utility billing service for each of the entities. Instead of billing each other for the two operating services, SPU and SCL made an arrangement to exchange the services. The Fund provided services to SCL with a cost of \$1,033,601 in 2002 and \$990,255 in 2001. In return, the Fund received services from SCL with a cost of \$994,998 in 2002 and \$773,840 in 2001.

The Fund is subject to regulation by the City and the state of Washington. Service rates are authorized by ordinances passed by the City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor’s Office, Division of Municipal Corporations and conform to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund has chosen to apply all pronouncements and interpretations issued by the GASB, as well as those issued by the Financial Accounting Standards Board on or before November 30, 1989, except when they conflict with the GASB.

Basis of Accounting—The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets and liabilities associated with the Fund’s operations are included on the balance sheets. The operating statements present increases (revenues) and decreases (expenses) in total net assets.

Revenues—The Fund provides water service to wholesale and retail customers and recognizes revenue when such service is provided. Wholesale customers (Purveyors) are under contract with the Fund and rates are set based on cost allocation criteria stipulated in the contracts.

Service rates for all customers are authorized by ordinances passed by the Seattle City Council. Billings are made to customers monthly or bimonthly. Revenues for water sold to customers between the last billing date and the end of the year are estimated and accrued in the accompanying financial statements.

Utility Plant—Utility plant is stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of replacements and betterments is capitalized. The Fund’s policy is to capitalize assets with a cost of \$5,000 or more. At the time property is retired and removed from service, the original cost of the property, together with removal cost less salvage value, is charged to the depreciation reserve.

Depreciation—Plant in service is depreciated on the straight-line method, using composite rates based on estimated lives as follows:

Earthen source of supply developments	100 years
Transmission and distribution reservoirs, tanks, and mains	50 to 100 years
Pumps, wells, and treatment facilities	15 to 33 years
Buildings, fixtures, and equipment	3 to 50 years

It is the Fund’s policy to begin recording depreciation in the year following acquisition and to record a full year’s charge in the year of disposition.

Construction in Progress—Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, related costs are transferred to utility plant. Upon determining that a project will be abandoned, the related costs are charged to expense.

Deferred Conservation Costs—Conservation program costs that result in long-term benefits and reduce or postpone other capital expenditures are capitalized and amortized over their expected useful lives of 10 years, commencing when each program is in place. Costs of administering the overall program are expensed as incurred.

Deferred Computer Systems Costs—The Fund capitalizes all direct and incremental costs and the related overhead incurred in connection with the development of significant information systems projects that are to be used internally. Such costs are shown as other deferred charges on the balance sheets and are amortized over the projects’ estimated useful life, usually six to eight years. In 2001, the Fund put a computer system, the Consolidated Customer Service System (“CCSS”), in service. Deferred CCSS costs of \$9,438,452 are being amortized for eight years beginning in 2002.

Preliminary Survey Investigation Costs—The Fund defers costs associated with preliminary survey investigations and feasibility studies within other deferred charges on the balance sheets and amortizes those costs either over the periods for which they are included in rates or over the estimated economic life of the study. In the event of abandonment of a project, all associated costs are charged to expense.

Environmental Liability Cleanup Costs—In the ordinary course of conducting its business, the Fund incurs liabilities related to the cleanup of certain environmental contaminants. The Fund’s policy is to recognize the expense associated with the cleanup over those periods in which the costs are recovered through rates.

Rate Stabilization Account—The Rate Stabilization Account (the “Account”) was established in 1993 to reduce year-to-year variation in rates. Deposits into the Account are included as revenue within the statements of revenues, expenses, and changes in net assets and are excluded as revenue available for debt service coverage in the year the deposit is made. Conversely, moneys withdrawn from the Account are considered revenue available for debt service coverage in the year the withdrawal is made. Effective in 2003, a City ordinance requires the Fund to make an annual deposit of \$2.5 million into the Account, and withdrawals from the Account must be authorized by City ordinance.

Timber Sales—The Fund occasionally contracts with outside timber purchasers to harvest timber owned within its watershed and nonoperating properties. Revenue is recognized based on terms of the harvesting contract. The cutting schedules and associated revenues and expenses are primarily determined by market and other factors. Income arising from timber operations may vary significantly from year to year.

Net revenues from commercial thinning, salvage, and timber harvest in the Cedar River Watershed are obligated, in compliance with City ordinance, to support land and habitat acquisition within the watershed.

Compensated Absences—Employees earn vacation based on their date of hire and years in service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick leave payments.

Taxes—The Fund is charged a business and occupation tax by the City at a rate of 10% of Fund revenues, net of certain credits. In addition, the Fund paid a public utility tax to the state based on approximately 4% of a certain portion of revenues. The remainder was taxed under the business and occupation tax at the rate of 1.5% in 2002 and 2001.

Inventory—The Fund values its inventory based on a moving average method. The most recent total cost of an inventory item is divided by the total units of the item that remain in the inventory to determine the moving average cost of the item. The moving average cost is then applied to all the units of the inventory item.

Net Assets—There are three components of net assets: invested in capital—net of related debt; restricted net assets; and unrestricted net assets. Invested in capital assets includes utility plant, deferred conservation costs, other deferred charges that are capital in nature, and net unamortized bond issuance costs. The Fund had no restricted assets as of December 31, 2002 and 2001.

Other Revenues and Expenses—This includes the nonoperating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the utility and are of a recurring nature. Major items are investment and interest income, interest expense, and amortization of debt expenses.

Arbitrage Rebate Requirement—The Fund is subject to the Internal Revenue Service Code, Section 148(f), related to its tax-exempt revenue bonds. The Internal Revenue Service Code requires that earnings on gross proceeds of any revenue bonds, which are in excess of the amount prescribed, will be rebated to the Internal Revenue Service. As such, the Fund would record such rebate as a liability.

Accounting Changes—In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statement No. 34, as amended, commonly referred to as the new reporting model, retained much of the old reporting and disclosure requirements under the prior reporting model with certain modifications and newly added information. Applicable portions of this statement were implemented by the Fund for the year ended December 31, 2002, and the most significant effects on the

Fund's annual financial statements were the addition of management's discussion and analysis as required supplementary information and reclassifications of net asset amounts.

The Fund adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, in 2001. The cumulative effect of the adoption was made in 2002 in conjunction with the implementation of GASB Statement No. 34 by classifying as unrestricted net assets the amounts previously reported as contributions in aid of construction.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record unbilled revenues, allowance for doubtful accounts, accrued sick leave, environmental liabilities, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

Reclassifications—Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

2. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

The City's Department of Finance invests all temporary cash surpluses for City departments. This department may, at various times, invest these surpluses in certificates of deposit issued by Washington State depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers' acceptances trading in the secondary market, and repurchase or reverse-repurchase agreements with primary dealers that use authorized securities as collateral. Delivery of collateral on the underlying securities is required on all repurchase agreement transactions. The Fund is allocated interest income by the City.

It is the City's policy that all investments of the Fund, except repurchase or reverse-repurchase agreements, be held by banks or trust companies as agents of the City and in the City's name.

The first \$100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission ("PDPC") collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

The City considers highly liquid, short-term investments with original maturities of three months or less to be cash equivalents. The cash pool operates like a demand deposit account in that all agencies, including the City, may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments plus the cash held in escrow for vendors. Securities with maturities exceeding three months at the time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income.

Capital expenditures are initially funded by the Operating Fund, which is subsequently reimbursed by the Construction Fund.

Investments are reported at fair value based on quoted market prices for those or similar securities. There were no investments as of December 31, 2002. As of December 31, 2001, investments were as follows:

U. S. government securities	\$16,867,846
Commercial paper	<u>16,710,395</u>
	<u>\$33,578,241</u>

3. NOTES AND CONTRACTS RECEIVABLE

Other receivables are composed of the following as of December 31:

	2002	2001
Water main assessments	\$ 357,378	\$ 368,378
Land sales receivable	233,839	272,454
Richmond Beach surcharge	<u>210,414</u>	<u>247,414</u>
	801,631	888,246
Less current portion	<u>(91,618)</u>	<u>(86,615)</u>
Total other receivables, net of current portion	<u>\$ 710,013</u>	<u>\$ 801,631</u>

4. UTILITY PLANT

Utility plant consists of the following as of December 31:

	2001	Additions and Transfers In	Retirements and Transfers Out	2002
Equipment	\$ 713,242,030	\$ 71,241,592	\$ (35,860)	\$ 784,447,762
Buildings, fixtures, and grounds	<u>110,694,133</u>	<u>24,729,974</u>	<u>(273,856)</u>	<u>135,150,251</u>
Total plant in service— excluding land	823,936,163	95,971,566	(309,716)	919,598,013
Less accumulated depreciation	<u>(225,141,848)</u>	<u>(19,710,870)</u>		<u>(244,852,718)</u>
	598,794,315	76,260,696	(309,716)	674,745,295
Construction in progress	170,421,339	99,618,604	(110,470,739)	159,569,204
Land and land rights	13,511,222	36,976		13,548,198
Nonoperating property—net of accumulated depreciation	<u>274,512</u>			<u>274,512</u>
Utility plant—net	<u>\$ 783,001,388</u>	<u>\$ 175,916,276</u>	<u>\$ (110,780,455)</u>	<u>\$ 848,137,209</u>

During 2002 and 2001, the Fund capitalized interest costs relating to construction of \$7,213,226 and \$7,524,877, respectively.

5. OTHER DEFERRED CHARGES

Other deferred charges consist of the following as of December 31:

	2002	2001
Capitalized information systems costs	\$ 52,346,882	\$ 50,381,422
Environmental liability costs	2,534,432	2,534,432
Intangible assets	1,345,782	1,194,051
Preliminary investigation costs	1,170,476	1,170,476
Less accumulated amortization	<u>(35,059,979)</u>	<u>(31,247,004)</u>
	<u>\$ 22,337,593</u>	<u>\$ 24,033,377</u>

6. REVENUE BONDS

At December 31, revenue bonds consist of the following:

	2002			2001		
	Long-Term	Short-Term	Total	Long-Term	Short-Term	Total
2002 A&B Water System Revenue Bonds, rates averaging 1.29% in 2002, due through 2032, insured by a third-party insurer	\$ 63,841,044	\$ 1,158,956	\$ 65,000,000	\$ —	\$ —	\$ —
2001 Water System Revenue Bonds, 4.50% to 5.00%, due through 2031, insured by a third- party insurer	52,525,000		52,525,000	52,525,000		52,525,000
1999B Water System Revenue Bonds, 5.00% to 6.00%, due through 2029, insured by a third- party insurer	104,600,000	1,875,000	106,475,000	106,475,000	1,800,000	108,275,000
1999A Water System Revenue Bonds, 4.00% to 5.375%, due through 2029, insured by a third- party insurer	93,320,000	1,765,000	95,085,000	95,085,000	1,700,000	96,785,000
1998 Water System Revenue Bonds, 4.5% to 5.0%, due through 2027, insured by a third- party insurer	72,805,000	1,560,000	74,365,000	74,365,000	1,495,000	75,860,000
1997 Water System Revenue Bonds, 5.375% to 5.625%, due through 2026, insured by a third- party insurer	<u>46,915,000</u>	<u>1,065,000</u>	<u>47,980,000</u>	<u>47,980,000</u>	<u>1,020,000</u>	<u>49,000,000</u>
<i>Brought forward</i>	434,006,044	7,423,956	441,430,000	376,430,000	6,015,000	382,445,000

	2002			2001		
	Long-Term	Short-Term	Total	Long-Term	Short-Term	Total
<i>Carried forward</i>	\$ 434,006,044	\$ 7,423,956	\$ 441,430,000	\$ 376,430,000	\$ 6,015,000	\$ 382,445,000
1995 Water System Revenue Bonds, variable rates averaging 1.25% in 2002, due through 2025, insured by a third-party insurer	40,700,000	1,100,000	41,800,000	41,800,000	1,100,000	42,900,000
1993 Water System Revenue Bonds, 4.7% to 5.5%, due through 2023, insured by a third-party insurer	<u>159,060,000</u>	<u>11,840,000</u>	<u>170,900,000</u>	<u>170,900,000</u>	<u>11,245,000</u>	<u>182,145,000</u>
	<u>\$ 633,766,044</u>	<u>\$ 20,363,956</u>	<u>\$ 654,130,000</u>	<u>\$ 589,130,000</u>	<u>\$ 18,360,000</u>	<u>\$ 607,490,000</u>

In May 2002, the Fund issued \$65,000,000 of Water System Revenue Bonds with principal payment due in 2032 and an annual interest rate of 1.29% in 2002. It is the Fund's policy to make annual principal payments to reduce the outstanding principal amount, beginning in 2003.

The 1995 Water System Revenue Bonds and the 2002 Water System Revenue Bonds are variable rate obligations. The Fund has secured the services of remarketing agents responsible for remarketing the bonds at regular intervals on the open market. The Fund pays actual market interest costs and a fee for remarketing services. The bonds are currently remarketed weekly, though the Fund retains the ability to cause the bonds to be remarketed at other intervals.

In prior years, the Fund defeased certain bonds by placing investments acquired from the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the Fund's financial statements. The difference between the cost to defease outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds, using the effective interest method.

Proceeds of the revenue bonds are being used to finance certain capital improvement projects and conservation programs for the Fund.

Future principal and estimated interest payments for revenue bonds are as follows:

Years Ending December 31	Principal	Interest	Total
2003	\$ 20,363,956	\$ 33,259,026	\$ 53,622,982
2004	21,340,315	32,277,848	53,618,163
2005	18,328,527	31,208,880	49,537,407
2006	18,188,668	30,297,971	48,486,639
2007	16,040,815	29,362,989	45,403,804
2008 – 2012	94,467,274	133,604,119	228,071,393
2013 – 2017	121,321,912	106,254,277	227,576,189
2018 – 2022	152,665,030	71,608,635	224,273,665
2023 – 2027	135,249,298	33,151,690	168,400,988
2028 – 2032	<u>56,164,205</u>	<u>5,327,535</u>	<u>61,491,740</u>
	<u>\$ 654,130,000</u>	<u>\$ 506,352,970</u>	<u>\$ 1,160,482,970</u>

Water System Revenue Bonds contain certain financial covenants, the most significant of which requires the Fund to maintain adjusted net revenue to provide for debt service coverage on the bonds and a reserve for the payment of annual debt service. The Fund must maintain adjusted net revenue of not less than 125% of actual annual senior lien debt service. Adjusted net revenues remaining after senior lien debt service has been paid must not be less than 125% of annual junior lien debt service. In 2002, adjusted net revenue was 151% of senior lien debt service, and adjusted net revenue available after senior lien debt service was paid was 1111% of junior lien debt service. The Fund has obtained reserve insurance policies to meet its reserve requirements. Net revenues available for debt service for the year ended December 31, 2002, is determined as follows:

Change in net assets	\$ 2,570,409
Add:	
City occupation tax	7,867,504
Depreciation and amortization	25,171,216
Interest on revenue bonds	31,165,386
Amortization of debt expenses and loss	1,278,400
Claims and damages not paid in 2002	721,402
Noncash investment fair value adjustment	(204,319)
Loss on Tacoma Project	6,636,051
Withdrawal of cash from the Rate Stabilization Account	<u>3,000,000</u>
	78,206,049
Less capitalized interest	<u>7,213,226</u>
Adjusted net revenue available for debt service	<u>\$ 70,992,823</u>
Senior debt service requirement (cash basis)	\$ 47,116,045
Senior lien coverage percentage	151 %
Adjusted net revenue available for junior lien debt service	\$ 23,876,778
Junior lien debt service requirement (cash basis)	2,149,126
Junior lien coverage percentage	1,111%

7. PUBLIC WORKS TRUST LOAN

During 1993, the Fund entered into an agreement to borrow up to \$2,220,000 from the Washington State Department of Community Development under its Public Works Trust Loan Program for the construction of certain capital improvements. As of December 31, 2002 and 2001, the Fund owed \$1,300,384 and \$1,418,601, respectively. Amounts borrowed under the agreement accrue interest at 1% per annum and are to be repaid in 19 equal annual installments, plus interest.

8. ENVIRONMENTAL LIABILITY

The Fund has recorded a \$1,225,633 liability for future environmental cleanup costs related to lead-based paint and arsenic contamination surrounding several standing water tanks as well as expected remediation efforts associated with underground fuel tank replacements. The liability is included in other long-term liabilities on the balance sheet. The total cost is expected to be recovered through rates over an estimated 30-year period.

The schedule below represents the changes in the estimated liability:

	2002	2001
Beginning liability	\$ 1,300,000	\$ 1,970,989
Payments	<u>(74,367)</u>	<u>(670,989)</u>
Ending liability	<u>\$ 1,225,633</u>	<u>\$ 1,300,000</u>

9. TACOMA PROJECT

The Tacoma Project originated in the 1980s. The project concept was to bundle the construction of a pipeline connecting Seattle and Tacoma with the expansion of Tacoma's transmission and Green River supply systems. The Fund agreed to pay one-third of the project cost in exchange for a portion of the increased water supply. Design, engineering, permitting, and environmental analyses began in 1992. The Fund capitalized its share of these costs as construction in progress.

During 2001, it became apparent that Lake Tapps, a water reservoir in Pierce County used for power generation, could be developed as a source of water supply. The lake contains treated wastewater and glacial till and is of lower quality than that supplied by Tacoma's Green River source or Seattle's sources. As a matter of policy, the Fund requires control of the sources of water with which it will supply its customers. The Fund was unable to secure a guarantee that water supplied to Seattle from the Tacoma Project would come exclusively from Tacoma's Green River source (and not from Lake Tapps), and therefore will not continue as a partner in this project.

The Fund's costs for Tacoma Project development were for planning, design, environmental review and permitting activities, and not for physical assets. Because the Fund will not participate in the Tacoma Project, the Fund recorded a loss on the Tacoma Project in 2002 in the amount of \$6,636,051.

10. RETIREMENT PLANS

Pension Costs—All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the "System"), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service; and after age 62, with five or more years of service. The System also provides

death and disability benefits. These benefit provisions and all other requirements are established by City ordinances.

City employees are required to contribute 8.03% of their annual base salaries to the System. The City's contribution rate was 8.03% as of January 1, 2002 and 2001. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2002, 2001, and 2000, were \$2,665,945, \$2,461,551, and \$2,357,781, respectively. The Fund's contribution in 2002 represents its full liability to the System.

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, Washington, 98104; telephone: (206) 386-1292.

Employer contributions for the City are as follows (dollars in millions):

Year Ended December 31	City Required Contribution	City Actual Contribution	Percentage Contributed
2000	\$ 30.8	\$ 30.8	100 %
2001	32.5	32.5	100
2002	35.2	35.2	100

Actuarial data and assumptions:

Valuation date	January 1, 2002
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	-0- years
Amortization period	Open
Asset valuation method	Market
Investment rate of return	8.00%
Projected general wage inflation	4.50%
Postretirement benefit increases	0.67%

Schedule of funding progress (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) — Entry Age (b)	(1)	Unfunded AAL (UAAL) (b-a)	(2)	Funded Ratio (a/b)	Covered Payroll (c)	(3)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2000	\$ 1,582.7	\$ 1,403.1		\$ (179.6)		112.8 %	\$ 370.4		(48.5)%
1/1/2001	1,493.1	1,490.3		(2.8)		100.2	383.7		(0.7)
1/1/2002	1,383.7	1,581.4		197.7		87.5	405.1		48.8

(1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method

(2) Actuarial accrued liabilities less actuarial value of assets

(3) Covered payroll includes compensation paid to all active employees on which contributions are calculated

Deferred Compensation—The City offers all of its employees a deferred compensation plan (the “Plan”) created in accordance with Internal Revenue Code (“IRC”) Section 457. The Plan permits employees to defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death or unforeseen emergency.

The Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the trust shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City’s legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

11. RISK FINANCING LIABILITIES

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund’s property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

For 2002 and 2001, liabilities for workers’ compensation claims as well as other claims are discounted over a 15-year period at the City’s rate of return on investments, 4.24% and 5.34%, respectively. Claims expected to be paid within one year were \$645,032 and \$596,060 at December 31, 2002 and 2001, respectively. The schedule below represents the changes in the liability for workers’ compensation claims and other claims (risk-financing liabilities) as of December 31:

	2002	2001
Beginning liability	\$ 1,887,224	\$ 2,902,282
Payments	(516,300)	(2,142,911)
Incurred claims and changes in estimates	<u>1,237,702</u>	<u>1,127,853</u>
Ending liability	<u>\$ 2,608,626</u>	<u>\$ 1,887,224</u>

12. COMMITMENTS AND CONTINGENCIES

Seattle Public Utilities has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (“HCP”) is to protect all species of concern that may be affected by the operations of Seattle Public Utilities and City Light in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be \$90 million (in 2002 dollars) over a period of 50 years. Expenditures are expected to be funded from a combination of operating revenues and debt.

The Fund has negotiated an agreement relating to compliance with the Surface Water Treatment Rule on its Cedar River supply system, which requires it to evaluate ozonation and filtration, and recommend changes to current treatment. A recommendation for ozonation compatible with filtration was provided

to the Washington State Department of Health in November 1995, and approved in January 1996. The ozonation facility is under construction and expected to cost approximately \$100 million, of which \$42.4 million is expected to be paid in 2003 and 2004. The facility is expected to be operational in 2004. Expenditures are expected to be funded from a combination of operating revenues and debt.

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APPENDIX D
BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the “beneficial owners”) should confirm the following with DTC or its participants (the “Participants”).

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar or the City, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of redemption proceeds, distributions and dividends to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner will give notice to elect to have its Bonds purchased or tendered, through its Participant, the Bond Registrar, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Bond Registrar. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Bond Registrar or the City. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The following information has been provided by the City.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Neither the City nor the Bond Registrar will be required to transfer or exchange Bonds during the period between a record date and the next succeeding interest payment date or redemption date. For purposes hereof, record date will mean in the case of each interest payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest payment date.

With respect to Bonds registered on the Bond Register in the name of DTC or its nominee, the City and the Bond Registrar will have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede and Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any amount with respect to principal of or interest on the Bonds, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or action taken by DTC as registered owner, or (vi) any other matter. The City and the Bond Registrar may treat and consider Cede and Co., in whose name each bond is registered on the Bond Register, as the holder and absolute owner of such bond for the purpose of payment of principal and interest with respect to such bond, for the purpose of giving notices

of redemption and other matters with respect to such bond, for the purpose of registering transfers with respect to such bond, and for all other purposes whatsoever.

The City's obligations under the Bond Legislation and the Bonds are to the registered owner or owners of the Bonds, and the City will not be liable to the Participants or beneficial owners of Bonds registered in the name of any nominee of DTC or a successor depository, for any acts or omissions of DTC or such successor depository.

APPENDIX E

DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

King, Snohomish and Island Counties constitute the Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA"), the fourth-largest metropolitan center on the West Coast. The City of Seattle, encompassing 92 square miles, is the largest city in the Pacific Northwest and is the center of King County's economic activity. Of the State's population, nearly 30 percent reside in King County, and of the County's population, 33 percent live in the City.

Population

The 1990 and 2000 U.S. Census population figures and recent population estimates for the City, King County and the Seattle PMSA are as follows:

Year	Seattle	King County	Seattle PMSA
2002 ⁽ⁱⁱ⁾	570,800	1,774,300	NA
2001 ⁽ⁱⁱ⁾	568,100	1,758,300	NA
2000 ⁽ⁱ⁾	563,374	1,737,034	2,414,616
1999 ⁽ⁱⁱ⁾	540,500	1,677,000	2,333,600
1998 ⁽ⁱⁱ⁾	539,700	1,665,800	2,306,400
1990 ⁽ⁱ⁾	516,259	1,507,319	1,972,961

(i) Source: U.S. Census

(ii) Source: Washington State Office of Financial Management, Forecasting Division

Per Capita Income

The following table presents per capita personal income. Per capita income for the State of Washington in 2001 was \$32,025.

	2000	1999	1998	1997	1996
Seattle PMSA	\$ 40,686	\$ 38,858	\$ 35,880	\$ 32,766	\$ 30,775
King County	45,536	43,201	39,335	35,382	33,316
State of Washington	31,230	29,819	28,285	26,469	25,015

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Building Permit Value

The table below lists the value of housing construction for which building permits have been issued by the City of Seattle. The value of public construction is not included in this table.

CITY OF SEATTLE BUILDING PERMITS

Year	New Single Family		New Multifamily		Total Value
	Units	Value	Units	Value	
2002*	381	\$ 60,198,048	1,569	\$ 110,661,851	\$ 170,860,259
2001	484	73,945,951	3,162	222,190,662	296,136,613
2000	449	64,587,520	4,403	286,312,450	350,899,970
1999	480	65,696,744	3,065	191,087,633	256,784,377
1998	530	71,640,186	3,534	219,183,170	290,823,356
1997	469	68,601,487	1,930	147,134,120	215,735,607

* Through September 2002.

Source: Building Permit Activity of City and County in the State of Washington, BP Logistics

Industry and Employment

The table below shows employment by sector and unemployment for the Seattle PMSA.

**SEATTLE-BELLEVUE-EVERETT PMSA
(KING, SNOHOMISH AND ISLAND COUNTIES)
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT**

	Average Annual ⁽¹⁾				
	2001 ⁽²⁾	2000 ⁽³⁾	1999	1998	1997
Civilian Labor Force					
Employment	1,292,600	1,344,500	1,357,200	1,337,300	1,297,500
Unemployment	70,400	52,000	47,600	42,700	44,800
Total Civilian Labor Force	1,362,900	1,396,500	1,404,800	1,380,000	1,342,300
Unemployment Rate ⁽⁴⁾	5.2%	3.7%	3.4%	3.1%	3.3%
Nonagricultural Employment					
Manufacturing					
Aircraft and parts	83,600	82,400	95,100	108,200	101,100
Misc. trans. equipment	6,900	9,100	9,500	9,300	8,800
Food products	14,300	15,200	14,900	16,100	17,000
Wood products and paper	11,900	12,100	12,100	12,500	12,400
Machinery and electrical	21,600	22,100	22,200	21,700	20,700
Instruments	11,500	11,700	11,900	12,100	11,800
Textiles, apparel and leather	4,100	4,400	4,500	4,900	5,100
Printing and publishing	13,600	14,400	13,700	13,800	14,100
Other manufacturing categories	27,900	29,300	30,100	29,700	27,800
Total manufacturing	195,400	200,700	214,000	228,200	218,800
Nonmanufacturing					
Mining and quarrying	1,100	1,100	700	700	700
Contract construction	80,100	84,300	78,400	73,300	66,500
Transp., commun. and utilities	87,100	87,900	84,000	81,000	77,700
Wholesale and retail trade	324,700	335,900	325,000	315,500	304,000
Finance, insurance and real estate	87,400	84,000	84,600	81,500	76,700
Services	429,900	438,000	408,700	390,800	371,400
Government	195,800	190,500	187,000	183,000	178,100
Total nonmanufacturing	1,206,100	1,221,700	1,168,400	1,125,600	1,075,100
Total Nonagricultural Employment	1,401,500	1,422,400	1,382,400	1,353,800	1,293,900

(1) Columns may not add to totals due to rounding.

(2) Preliminary.

(3) Revised.

(4) Unemployment rate as of January 2003 estimated at 6.5 percent.

Source: Washington State Department of Employment Security

The following table presents employment data for major employers in the Puget Sound area, which is defined for the purposes of this section as King, Kitsap, Pierce, and Snohomish Counties, Washington.

**PUGET SOUND AREA
MAJOR EMPLOYERS**

<u>Employer</u>	<u>Employees</u>
The Boeing Company	58,900 ⁽¹⁾
Microsoft	25,235 ⁽²⁾
University of Washington	23,500
King County	14,700
Safeway	12,800
City of Seattle	10,600
Group Health Cooperative	10,000
Sisters of Providence Health	9,600
Weyerhaeuser	8,400
Swedish Health	7,115

(1) State-wide employment as of March 2003. (The Puget Sound area is the location for almost all of the Boeing employment within the State.)

(2) As of July 2002.

Sources: Economic Development Council of Seattle and King County and individual employers, March 2003.

The Boeing Company ("Boeing") had revenues of \$58.0 billion in 1999, \$51.3 billion in 2000 and \$58.2 billion in 2001. Through the third quarter of 2002, revenues were \$40.3 billion, compared to \$42.5 billion through the third quarter of 2001. Total airplane deliveries in 2002 were 381, compared to 527 in 2001. Boeing remains the largest employer in the Puget Sound area, although total employment within the company dropped from 238,600 to 164,300 and employment within the State dropped from 103,420 to 58,900 between February 1998 and March 2003. In September 2001, Boeing moved its corporate headquarters to Chicago, Illinois. Subsequent to the events of September 11, 2001, Boeing laid off or gave notices of layoffs to more than 30,000 employees (as partially reflected in the table above); Boeing announced in December 2002 that it expects to lay off another 5,000 workers in 2003.

Microsoft, which is headquartered in Redmond, is the region's largest high technology employer with more than 50,600 employees worldwide, including 25,205 in the Puget Sound area as of July 26, 2002. Microsoft is a developer and manufacturer of computer operating systems and software. Microsoft's fiscal year 2002 revenues were \$28.4 billion, compared to \$25.3 billion in fiscal year 2001.

Retail Activity

The following table presents taxable retail sales in Seattle and King County.

**THE CITY OF SEATTLE AND KING COUNTY
TAXABLE RETAIL SALES (000)**

<u>Year</u>	<u>The City of Seattle</u>	<u>King County</u>
2002*	\$ 9,345,584	\$ 25,593,133
2001	13,024,765	35,772,850
2000	13,625,486	37,383,541
1999	12,728,470	34,517,504
1998	11,457,199	31,518,255
1997	10,643,911	29,196,029

* Through third quarter of 2002.

Source: Washington State Department of Revenue

Other Information

A variety of additional issues may have an effect on the economy of the Seattle area, including but not limited to transportation infrastructure, endangered species listings, the commercial real estate market, higher energy costs, limits on residential development and resulting housing costs, and the September 11, 2001, terrorist attacks and their effect on aerospace, tourism and travel. The effects of these issues are interdependent and cannot be quantified.

APPENDIX F

DEBT SERVICE RESERVE FUND SURETY BOND

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DEBT SERVICE RESERVE FUND SURETY BOND

Application has been made to the MBIA Insurance Corporation (the "Insurer") for a commitment to issue a surety bond (the "Debt Service Reserve Fund Surety Bond"). The Debt Service Reserve Fund Surety Bond will provide that upon notice from the Paying Agent to the Insurer to the effect that insufficient amounts are on deposit in the Reserve Subaccount to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Bonds, the Insurer will promptly deposit with the Paying Agent an amount sufficient to pay the principal of and interest on the Bonds or the available amount of the Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the Debt Service Reserve Fund Surety Bond, duly executed by the Paying Agent; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Paying Agent to the Insurer, the Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Debt Service Reserve Fund Surety Bond is the initial face amount of the Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by the Insurer with the Paying Agent which have not been reimbursed by the City. The City and the Insurer have entered into a Financial Guaranty Agreement dated [_____] (the "Agreement"). Pursuant to the Agreement, the City is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Paying Agent under the Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made only after all required deposits to the Operation and Maintenance Fund and the Debt Service Fund have been made.

Under the terms of the Agreement, the Paying Agent is required to reimburse the Insurer, with interest, until the face amount of the Debt Service Reserve Fund Surety Bond is reinstated before any deposit is made to the General Fund. No optional redemption of Obligations may be made until the Insurer's Debt Service Reserve Fund Surety Bond is reinstated. The Debt Service Reserve Fund Surety Bond will be held by the Paying Agent in the Reserve Subaccount and is provided as an alternative to the City depositing funds equal to the Debt Service Requirement for outstanding Obligations. The Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to Maximum Annual Debt Service for the Obligations and the premium therefor will be fully paid by the City at the time of delivery of the Obligations.

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APPENDIX G

MUNICIPAL BOND INSURANCE POLICY SPECIMEN

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest: _____

Assistant Secretary

SPECIMEN

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